WGC
Business Advisors Pty Ltd

WGC News
January 2018

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Overview

Welcome to the January 2018 Edition of WGC News.

In this Edition we review GST on Developments of New Residential Property, Superannuation Contributions on Downsizing the Family Home, New Government Service to Help Make Business and Tax Registrations Easier, Recent Changes Affecting Residential Investment Properties, WGC Succession and lastly, a notification on the forthcoming WGC Seminar.

WGC Business Advisors Pty Ltd (WGC) is proud that ongoing information and support is a core service provided to Clients and those considering becoming a Client in the future. Should there be any issues requiring further discussion or any queries please do not hesitate to contact WGC on (03) 9654 1811.

GST on Developments of New Residential Property

On 9 May 2017 the Government announced it intended to change the law in relation to newly constructed residential properties. The proposed new law has been designed as part of the Government's crackdown on 'Phoenix operators' who claim GST credits for the development of new residential premises, but then fail to remit the GST on sale proceeds - resulting in a significant loss of revenue.

If the laws are enacted in their current form, from 1 July 2018 (or 1 July 2020 for contracts signed prior to 1 July 2018 on which consideration is paid prior to July 2020) a purchaser of residential property or potential residential land will be required to pay one-eleventh of the consideration for the property to the ATO at settlement.

Whilst we anticipate the impact on purchasers will be minimal - with withholding requirements dealt with by your lawyers as part of the settlement process - developers will be impacted with additional notification requirements, and most relevantly, significant changes to cash-flows.

Should you have any questions in relation to this, please contact the WGC Team.

Superannuation Contributions on Downsizing the Family Home

The First Home Super Saver (FHSS) Scheme and the Downsizing Contributions into Superannuation measures became law on 13 December 2017. From 1 July 2018, Australians aged 65 years or older will be able to make a non-concessional (after-tax) contribution of up to $300,000 into their superannuation fund from the sale proceeds of their family home if they have owned the property for at least 10 years.

The rules indicate that the property sold must be the person's home (be eligible for the main residence exemption for Capital Gains Tax). Any super contributions made using the new downsizing rules are in addition to any voluntary contributions made under the existing non-concessional (after-tax) contributions cap. You are eligible to make the downsizing contribution if the following conditions are met:

1. the contribution is made to a complying super fund by a member aged 65 years or older;
2. the amount is equal to part of all of the capital proceeds received from the disposal which qualifies for CGT main residence exemption;
3. the member or the member's spouse (including former or deceased spouse) had an interest in the main residence during the 10 years prior to the disposal;
4. the member has not previously made downsizer contributions in relation to an earlier disposal of a main residence.

New Government Service to Help Make Business and Tax Registrations Easier

In late September 2017, the Federal Government commenced public 'BETA' testing of a new service to allow for Taxpayers to register for a business in an easier and more convenient manner.

This new service allows Business to apply online for multiple Business and Tax registrations at the same time.

The Revenue Minister, Mr Kelly O'Dwyer said that the Government was undertaking a phased implementation approach to this software and continues to obtain feedback on the user's experience with the public testing. The Minister advised that through recent testing and analysis, the average time taken to register for an Australian Business Number ('ABN') has reduced from an average 1 hour to less than 15 minutes.

It is further noted that the 'BETA' software is available to both new Businesses (Sole Trader, Company, Trust, Partnership or Superannuation Fund), who can now apply for a Business Name, Australian Business Number (ABN) and other tax registrations such as Goods & Services Tax, Pay As You Go Withholding and Fringe Benefits Tax at the one time and also existing Businesses with a valid ABN.

Recent articles suggest that the testing has had feedback from more than 35,000 users. However, amidst claims that the 'BETA' testing has been completed by the press, it should be noted that the software continues to be in this testing phase.

As with any new form of technology, there will be a range of complexities and bugs that confront the development team and these will continue to be ironed out before the software moves to a 'live' status. Whilst we understand the frustration for clients dealing with technology, we believe it is important for you to understand there are a series of improvements currently in the ATO's pipeline which will hopefully cut through more of the time-wasting red-tape you all experience.

Recent Changes Affecting Residential Investment Properties

Following the 2017 Federal Budget announcement, legislation has been enacted from 1 July 2017 that will limit the entitlement to claim certain deductions for residential investment property owners.

The most significant impact will be on the owner's ability to claim a tax deduction for the write down of assets associated with the rental property. For rental properties purchased before 9 May 2017, all depreciating assets, whether purchased new by the current owner, or installed in an existing home on acquisition, are eligible for a depreciation expense that can be offset against other assessable income.

Where a rental property (other than a newly constructed home) is acquired after 9 May 2017, the owner will be denied a depreciation deduction for the write down of assets that were installed in the property at the time of acquisition. Similarly, a tax deduction for the write down of second-hand depreciable assets purchased after 9 May 2017 will also be denied.

Prior to the enactment of these rules, there was significant benefit in obtaining a Quantity Surveyor's report which gave the new owner of an existing rental property a detailed list of assets acquired with the building, which enabled the new owner a write off those assets over their new effective life. This deduction took no account of the fact that the previous owner may have already depreciated those assets during their ownership period. Under the new rules, this tax treatment will only apply to a newly constructed home, when a Quantity Surveyor's report will remain a useful tool in quantifying the appropriate depreciation claim going forward.

Please note, these rules do not affect an owner's ability to claim the existing (Division 43) capital allowance deduction, which broadly allows a deduction for the write off of the construction cost of a residential property over a period of 40 years (2.5% per annum).

Also from 1 July 2017, investors in rental properties will also be denied a deduction for cost of travel associated with the property - including for the purpose of inspection, repairs etc - unless the investor is deemed to be in the business of residential property investment. In most cases, investors with a small number of rental properties will not constitute a property investment business. Travel includes car expenses, flights and associated expenses.

Should you have any queries in the relation to the impact of these changes on your ability to claim deductions in relation to your residential investment properties, please do not hesitate to contact the WGC team to discuss.

Finally, presumably in response to the recent pressure on negative gearing, the ATO has issued a timely reminder of their increased scrutiny of taxpayers who generate large tax losses from investments with seemingly exorbitant deductions. They have also flagged concerns over unreported rent derived from holiday homes and below market rate rent being paid by related party tenants, both generating significant tax losses and lowering otherwise taxable income.

Succession

As part of the WGC planned succession, Graeme White has ceased being a Director of WGC and has become a full-time Consultant to the Firm.

This succession plan ensures that you have the five younger Directors fully involved with and committed to Clients needs in the longer term, whilst still having Graeme's experience and expertise to support the Directors and Clients as required.

Following on from this succession planning there will be a change in the company holding our Tax Agent and ASIC Agent registrations.

To avoid any inconvenience, the new company will be renamed WGC Business Advisors Pty Ltd however both registration numbers will change.

We assure you that this change has no impact on you as Clients, however should you have any questions or issues regarding the registration changes, please contact Grant Leverington.

WGC Client Seminar

Our WGC client seminar series has recently covered the important topics of Superannuation and Estate Planning. We now move our focus to the tax cost of disposing of your assets - whether that is by way of sale or transfer through your Estate on death.

Simply, a capital gain or loss is the difference between what the asset cost you and what you receive when you dispose of it. The tax is triggered in the year of disposal and forms part of your taxable income - although not a separate tax, it is referred to as capital gains tax (CGT).

The tax applies to assets acquired after 19 September 1985, but there are discounts, rollovers and exemptions that are important to understand. Discounts can apply to assets held for more than 12 months or utilised in a small business. Certain assets are exempted from tax - primarily the family home and other personal use assets. Finally, there are circumstances when tax can be deferred on assets transferred to your Estate or your Beneficiaries on your death.

The WGC client seminar will focus on the tax impost of downsizing the family home, disposal of other assets during your lifetime and the implications on your Estate and your Beneficiaries as assets pass on your death. We will investigate the opportunities to reduce or defer the tax burden, highlighting the relevant tips and traps.

Also discussed will be the recently introduced "Downsizer Contributions", which provides an opportunity for an eligible member over 65 to sell their family home after 1 July 2018 (which has been owned for 10+ years) and contribute up to $300,000 of the proceeds to superannuation. This contribution is in addition to the existing contribution limits - which is good news for those members over 65 who could otherwise not contribute to superannuation due to not passing the work test or having in excess of $1.6m in the Fund.

We look forward to welcoming you to the WGC Client Seminar - Wednesday, 21 February 2018

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