Important EOFY actions for Trusts

Reducing your tax exposure, maximising the opportunities available to you, and reducing your risk of an audit by the regulators is in your best interests. With the end of the financial year fast approaching, this update will help you do exactly that:

We want to help you achieve the best result. If there is any additional assistance we can provide, or if you would like us to review your situation, please call us on 03 9870 7247 or e-mail admin@stoneaccountants.com.au.

Stone Accountants & Advisors

In brief

Date	Changes and actions

Pre 30 June 2018	• Trustee resolutions need to be in place to be able to distribute trust income for the 2018 financial year to beneficiaries (at the latest).
	• Ensure Tax File Numbers have been received from beneficiaries (excluding minors, non-residents and tax-exempt entities) before appointing income to them.
	• For any employees, pay superannuation to deduct contributions in the current financial year.
	• For business:
	  ◦ Complete a stocktake where required (see *Do you need to do a stocktake?*).
	  ◦ Write off bad debts and scrap any obsolete stock or plant and equipment.
	• Ensure any inter-entity management fees have been raised.

1 July 2018	• For business:
	  ◦ Single touch payroll is compulsory for employers with 20 or more employees at 1 April 2018. Standard business reporting-enabled software must be used to report payments such as salaries and wages, PAYG withholding and superannuation information.
	  ◦ Taxable payments annual reporting extended to businesses providing courier services or cleaning services.
	  ◦ GST applies to overseas sales of low value goods to Australian consumers in Australia, where the goods have a customs value of less than or equal to AUD$1,000.
	  ◦ GST on property developments and residential subdivisions - the way GST is collected on sales of newly constructed residential properties or new subdivisions will change from 1 July.
	  ◦ The way Research & Development incentives are managed will change.
	  ◦ Wine equalisation tax changes – reduced caps and tightening of eligibility criteria.
	  ◦ Definition of significant global entities (SGE) broadened – some smaller entities related to large global entities may be brought into the SGE reporting requirements.

14 July 2018 (on or before)	• PAYG Payment Summaries provided to all of your staff.
28 July 2018	• Quarterly super guarantee payment due (1 April – 30 June).
31 July 2018	• TFN report due for any TFNs received from beneficiaries in the June 2018 quarter.
14 August 2018	• Annual PAYG Payment Summary lodged with the ATO. Penalties apply for late lodgement.
28 August 2018	• Taxable payments annual report due for the building & construction industry
31 August 2018 (on or before)	• Send written notice of entitlement to distributions to any beneficiaries that are tax-exempt entities.

Date	Changes and actions
23 May 2019	• Proposed super guarantee amnesty ends.
30 June 2019	• $20k instant asset write-off ends (reduces back to $1,000).
1 July 2019	• Taxable payments annual reporting extended to security providers and investigation services; road freight transport; and computer system design and related services. • Single touch payroll – all employers will be required to use standard business reporting-enabled software from 1 July 2019 to report payments such as salaries and wages, PAYG withholding and superannuation information.

Important reminder - Trust distributions

Timing of resolutions

Trustees (or directors of a trustee company) need to consider and decide on the distributions they plan to make by 30 June 2018 at the latest (the trust deed may actually require this to be done earlier). Decisions made by the trustees should be documented in writing, preferably by 30 June 2018.

If valid resolutions are not in place by 30 June 2018, the risk is that the taxable income of the trust will be assessed in the hands of a default beneficiary (if the trust deed provides for this) or the trustee (in which case the highest marginal rate of tax would normally apply).

Low income tax offset and minors reminder

The low income offset has not been available to minors who only receive 'unearned' income (e.g. distributions from a discretionary trust) since the 2013 income year. Minors who only receive 'unearned' income will be subject to penalty rates of tax on income that exceeds $416 – this may include the debt levy.

Normal marginal tax rates can potentially still apply to minors who receive distributions from a deceased estate or testamentary trust.

Streaming of franked dividends and capital gains

Trustees are only able to stream franked dividends (and the franking credits that are attached to those dividends) to a particular beneficiary for tax purposes if the beneficiary's entitlement to the franked dividends is recorded in writing by 30 June 2018. For streaming of capital gains to be effective for tax purposes, the beneficiary's entitlement must be recorded in writing by 30 June if the capital gains form part of trust income for the year or 31 August if the capital gains do not form part of trust income.

We can assist you with this process if you do wish to stream franked dividends or capital gains to specific beneficiaries.

Tax exempt entities

If a trustee resolves to distribute income to a tax-exempt entity, the trustee will be assessed on that income at the top marginal tax rate unless:

- The trustee actually pays the entire distribution within 2 months of the end of the income year; or
- The trustee notifies the entity in writing of its entitlement within 2 months of the end of the income year.

Also, anti-avoidance rules tax the trustee on a portion of the income distributed to a tax-exempt entity where there is a mismatch between the net financial benefit to be received by the entity and the tax treatment of the distribution.

TFN withholding

The trustee of a 'closely held trust', such as a discretionary trust, must withhold tax from distributions to beneficiaries where they have not provided their TFN to the trustee. The rules apply when distributions are made by a closely held trust to most types of beneficiary except where:

- Beneficiaries under a legal disability (e.g., minors);
- Beneficiaries that are non-residents for tax purposes;
- Beneficiaries that are exempt entities (e.g., deductible gift recipients etc.).

When a beneficiary provides their TFN and other relevant details to a trust, the trustee must lodge a TFN report for that quarter with the ATO. TFN reports are due by the last day of the month following the end of the quarter. A beneficiary's TFN only needs to be reported to the ATO once. It is not necessary to lodge a TFN report if there are no new TFNs to report for a quarter.

If the beneficiary has not provided their TFN to the trustee by the time a distribution is made, the trustee is required to withhold tax from the distribution at the highest marginal rate plus Medicare levy (i.e. 49% in 2017-18). The beneficiary can claim a credit for this when they lodge their tax return. Significant penalties can apply if this withholding obligation is not satisfied.

What's new

For employers

Superannuation guarantee amnesty

The Government has announced an amnesty for employers that have fallen behind with superannuation guarantee (SG) payments to "self-correct". The amnesty applies to employers that have underpaid or not paid SG for any period from 1 July 1992 up to 31 March 2018. Under the amnesty, the penalties that normally apply to late payments are waived as is the administration fee, and the SG payment is deductible - normally employers lose the ability to deduct superannuation payments where SG is late.

While the legislation dealing with the amnesty is not yet law, the time period for taking advantage of the amnesty is due to end on 23 May 2019 and it will be important to identify any potential problem areas as soon as possible so that appropriate action can be taken.

If your business has engaged any contractors during the period covered by the amnesty, then the arrangements will need to be reviewed as it is common for workers to be classified as employees under the SG provisions even if the parties have agreed that the worker should be treated as a contractor. You cannot contract out of SG obligations.

If you have not undertaken a payroll audit or an audit of rates paid to employees, you should do this within the next 12 months.

The amnesty applies to voluntary disclosures. The amnesty does not apply to amounts that have already been identified as owing or where the employer is subject to an ATO audit.

Single touch payroll

Employers with 20 or more employees at 1 April 2018 must use standard business reporting-enabled software from 1 July 2018. The head count for '20 employees' includes full-time, part-time, casuals (who worked any time during March 2018), employees based overseas, or on paid or unpaid leave. Directors and independent contractors are excluded from the count. For businesses that are part of a wholly owned group, the total number of employees across the group is used (i.e., if the total number of employees employed by all member companies of the wholly-owned group is 20 or more, all group members must use STP).

STP is currently voluntary for businesses with less than 20 employees although proposed reforms seek to extend the reporting system to all employers by 1 July 2019, regardless of the number of employees.

Personal income tax bracket change

The Government has announced a seven year income tax plan. The plan benefits low and middle income earners in the first few years before expanding out to a broader restructure of the tax rates and brackets for everyone. From 1 July 2018, the top threshold of the 32.5% personal income tax bracket will increase from $87,000 to $90,000.

The legislation enabling the personal income tax plan is currently before Parliament and is not yet law.

Payments to contractors

From 1 July 2019, security providers and investigation services, road freight transport, and computer system design and related services businesses will need to lodge additional reports to the Australian Taxation Office about payments made to contractors (individual payments and total for the year). While this is a year away, if your business is affected by the change, think about what systems you will need to track and measure these payments and collect the required information from contractors.

From 1 July 2018, cleaning and courier businesses are required to lodge taxable payment reports with the first report due on 28 August 2019.

GST on low value imported goods

From 1 July 2018, GST applies to overseas sales of goods supplied to Australian consumers with a value under $1,000.

Australian businesses that purchase low value goods from overseas should check to make sure that overseas suppliers are not imposing GST on supplies of these goods unnecessarily.

The new rules are intended to apply to situations that are not captured by the existing GST importation rules because the goods are worth $1,000 or less. The rules are designed to only apply when goods are delivered to Australian consumers who are either not registered for GST in Australia or where the goods do not relate to an enterprise or business being carried on in Australia. If your business imports goods into Australia and is registered for GST, the tax should not apply to low value goods you import.

GST on property developments

From 1 July 2018, the way GST is collected on sales of newly constructed residential properties or new subdivisions will change. Rather than GST being collected when the vendor lodges their activity statement, the purchaser is required to pay a GST amount to the ATO, generally on or before settlement. The vendor must notify the purchaser in writing that the GST needs to be paid to the Commissioner and advise the amount that must be paid.

In most situations, the amount will be 1/11th of the contract price. Where the margin scheme is used, it is 7% of the contract price. Where the transaction is between associates, it is 10% of the GST-exclusive market value.

Notification rules will also apply to vendors who are selling residential dwellings or land, even if the transaction does not trigger a GST liability.

$20k accelerated deductions for small business extended (again)

The ability for small business entities to claim an immediate deduction for assets costing less than $20,000 has been extended until 30 June 2019.

From 1 July 2019, the immediate deduction threshold will reduce back to $1,000.

There are no limits to the number of times you can use the immediate deduction assuming your cashflow supports the purchases.

If your business is registered for GST, the total cost of the asset at the end of the year when the asset was first used needs to be less than $20,000 after the GST credits that can be claimed by the business have been subtracted from the purchase price. If your business is not registered for GST, it is the GST inclusive amount.

Second hand goods are also deductible. However, there are a number of assets that don't qualify for the instant asset write-off as they have their own set of rules. These include horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc.

If you purchase assets costing $20,000 or more, the immediate deduction does not apply but small businesses have the ability to allocate the purchase to a pool and depreciate the pool at a rate of 15% in the first year and 30% for each year thereafter.

Wine equalisation tax

From 1 July 2018, the producer rebate for the wine equalisation tax (WET) will change. The rebate cap rebate cap for each financial year will reduce from $500,000 to $350,000, and the eligibility criteria tightened.

In addition, access to the WET credit has been tightened.

Significant global entity definition change

From 1 July 2018, the definition of an SGE will be expanded to include: members of large multinational groups headed by private companies, trusts and partnerships; and, members of groups headed by investment entities.

In very broad terms, at present, an entity is an SGE if:

- It is the parent entity of a group with annual global income of $1bn or more; or
- It is a member of a group that includes a parent entity with annual global income of $1bn or more and the group is consolidated for accounting purposes as a single group.

These rules could potentially apply to Australian subsidiary companies or Australian branches of foreign companies, regardless of the turnover of the Australian operations.

If your trust is treated as an SGE then it is exposed to increased penalties for non-compliance, country-by-country reporting and additional ASIC obligations.

Financial house-keeping

Before you roll-over your software…

Before rolling over your accounting software for the new financial year, make sure you:

- Prepare your financial year-end accounts. This way, any problems can be rectified and you have a 'clean slate' for the 2018-19 year. Once rolled over, the software cannot be amended.
- Do not perform a Payroll Year End function until you are sure that your payment summaries are correct and printed. Always perform a payroll back-up before you roll over the year.

Employee reporting

PAYG payment summaries

You need to provide all of your staff with their PAYG Payment Summary on or before 14 July 2018. This includes any staff that left your employment during the 2017-18 financial year.

If we prepare your Payment Summaries for you, please provide us with the data file from your accounting software.

The ATO imposes penalties for the late lodgement of PAYG Payment Summary Statements.

The annual PAYG Payment Summary Statement for the year ending 30 June 2018 needs to be lodged with the ATO on or before 14 August 2018. However, if we are preparing your Payment Summary for you and you only employ family members in your business (closely held employees), you may be eligible for an extension.

Reportable Fringe Benefits on PAYG Payment Summaries

Where you have provided fringe benefits to your employees in excess of $2,000, you need to report the FBT grossed-up amount on their PAYG Payment Summary. This Reportable Fringe Benefit (RFB) amount is labelled on the PAYG Payment Summary for this purpose.

Do you need to do a stocktake?

Businesses that buy and sell stock generally need to do a stocktake at the end of each financial year as the increase or decrease in the value of stock is included when calculating the taxable income of your business.

If your business has an aggregated turnover below $10 million you can use the simplified trading stock rules. Under these rules, you can choose not to conduct a stocktake for tax purposes if the difference in value between the opening value of your trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year is less than $5,000. You will need to record how you determined the value of trading stock on hand.

If you do need to complete a stocktake, you can choose one of three methods to value trading stock:

- **Cost price** - all costs connected with the stock including freight, customs duty, and if manufacturing, labour and materials, plus a portion of fixed and variable factory overheads, etc.
- **Market selling value** - the current value of the stock you sell in the normal course of business (but not at a reduced value when you are forced to sell it).
- **Replacement value** - the price of a substantially similar replacement item in a normal market on the last day of the income year.

A different basis can be chosen for each class of stock or for individual items within a particular class of stock. This provides an opportunity to minimise the trading stock adjustment at year-end. There is no need to use the same method every year; you can choose the most tax effective option each year. The most obvious example is where the stock can be valued below its purchase price because of market conditions or damage that has occurred to the stock. This should give rise to a deduction even though the loss has not yet been incurred.

Reduce your risks & minimise your tax

1. Write-off bad debts

To be a bad debt, you need to have brought the income to account as assessable income, and given up all attempts to recover the debt. It needs to be written off your debtors' ledger by 30 June. If you don't maintain a debtors' ledger, a director's minute confirming the write-off is a good idea.

2. Review your asset register and scrap any obsolete plant

Check to see if obsolete plant and equipment is sitting on your depreciation schedule. Rather than depreciating a small amount each year, if the plant has become obsolete, scrap it and write it off before 30 June. Small Business Entities can choose to pool their assets and claim one deduction for each pool. This means you only have to do one calculation for the pool rather than for each asset.

3. Bring forward repairs, consumables, trade gifts or donations

To claim a deduction for the 2017-18 financial year, consider paying for any required repairs, replenishing consumable supplies, trade gifts or donations before 30 June.

4. Pay June quarter employee super contributions now

Pay June quarter super contributions this financial year if you want to claim a tax deduction in the current year. The next quarterly superannuation guarantee payment is due on 28 July 2018. However, some employers choose to make the payment early to bring forward the tax deduction instead of waiting another 12 months.

Don't forget yourself. Superannuation can be a great way to get tax relief and still build your personal wealth. Your personal or employer sponsored contributions need to be received by the fund before 30 June to be deductible.

5. Realise any capital losses and reduce gains

Neutralise the tax effect of any capital gains you have made during the year by realising any capital losses – that is, sell the asset and lock in the capital loss. These need to be genuine transactions to be effective for tax purposes. It may be possible to contribute assets with unrealised losses to superannuation in order to do this.

6. Raise management fees between entities by June 30

Where management fees are charged between related entities, make sure that the charges have been raised by 30 June. Where management charges are made, make sure they are commercially reasonable and documentation is in place to support the transactions. If any transactions are undertaken with international related parties then the transfer pricing rules need to be considered and the ATO's documentation expectations will be much greater. This is an area under increased scrutiny.

What we need from you

This is a general list of what to have ready when we next meet with you:

- Accounts data file (MYOB, Quickbooks, access to Xero)
- Debtors & creditors reconciliation
- Stock take if applicable (or, if your business is a Small Business Entity, use the simplified trading stock rules mentioned above)
- 30 June bank statements on all relevant loan documents
- Documents on new assets bought or sold, including the date you entered the contract and the date the asset was first used or installed ready for use
- Payroll reconciliation
- Superannuation reconciliation
- Cash book (if applicable)
- 30 June statements on any investment or operating accounts

And, if we are preparing your individual income tax return:

- PAYG Payment Summary
- Tax statements of managed investment funds
- Interest income from banks and building societies
- Dividend statements for dividends received
- For share sales or purchases, the purchase and sale contract notes
- For real estate sales or purchases, the solicitor's correspondence for the purchase and sale
- Rental property statements from real estate agent and details of other expenditure incurred
- Work related expenses
- Self-education expenses
- Travel expenses
- Donations to charities
- Health insurance and rebate entitlement
- Family Tax Benefits received
- Commonwealth assistance notices
- Medical Expenses (if they relate to disability aids, attendant care or aged care services)
- IAS statements or details of PAYG Instalments paid
- Details of any transactions involving cryptocurrency (e.g., Bitcoin)
- Details of any income derived from participating in the sharing economy (e.g., Uber driving, rent from AirBNB, jobs completed through Airtasker etc.,)