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Business lending practices in spotlight at Royal Commission

Bank lending practices for small and medium enterprises (SMEs) were in the spotlight when the Financial Services Royal Commission (FSRC) held its third round of public hearings in late May. These hearings focused on the conduct of financial services entities providing credit to SMEs.

SMEs are an important sector of the economy – over two million SMEs account for more than 65% of private sector employment. The Royal Commission considered issues with SME lending practices by reference to case studies involving ANZ, Bank of Queensland, CBA, Westpac and Suncorp.

The next round of the Royal Commission's public hearings focuses on issues affecting people in remote and regional communities, including farming finance, natural disaster insurance, and interactions between Aboriginal and Torres Strait Islander people and financial services entities.

Personal tax cuts now law

The legislation to enact the Government's seven-year personal income tax reform plan, as announced in the 2018 Federal Budget, passed Parliament on 21 June 2018.

Under the plan, a new non-refundable Low and Middle Income Tax Offset (LMITO) will be available from 2018–2019 to 2021–2022, providing tax relief of up to $530 to low-income individuals for each of those years. The new offset will be in addition to the existing low income tax offset (LITO). The top threshold of the 32.5% tax bracket will increase from $87,000 to $90,000 from 1 July 2018.

In 2022–2023, the top threshold of the 19% bracket will increase from $37,000 to $41,000 and the LITO will also increase.

The top threshold of the 32.5% bracket will then increase from $90,000 to $120,000 from 1 July 2022.

The legislation passed without amendments, although some had been raised in the Senate that would have prevented increasing the top threshold of the 32.5% bracket from $120,000 to $200,000 from 1 July 2024, removing the 37% tax bracket completely. This third step of the seven-year plan will now go ahead under the new tax law. And finally, taxpayers will pay the top marginal tax rate of 45% for taxable income exceeding $200,000.

GST property settlement online forms available

From 1 July 2018, purchasers of newly constructed residential properties or new subdivisions must pay the related GST directly to the ATO as part of the settlement.

The ATO says property transactions of new residential premises or potential residential land that involve GST to be paid directly to the ATO on or before settlement will require purchasers or their representatives to use the following online forms:

- Form one, *GST property settlement withholding notification*, is used to advise the ATO that a contract has been entered into for new residential premises or potential residential land that requires a withholding amount. This form can be submitted any time after a contract has been entered into and prior to the settlement date.
- Form two, *GST property settlement date confirmation*, is used to confirm the settlement date and can be submitted at the time of settlement and when the payment has been made to the ATO.

Depending on which state or territory the property is acquired in, the purchaser's representative can include a conveyancer or a solicitor.

Major ATO focus on work-related clothing and laundry this tax time

This tax time, the ATO will be closely examining claims for work-related clothing and laundry expenses.

Clothing claims are up nearly 20% over the last five years and the ATO believes many taxpayers are making mistakes or deliberately over-claiming. Around a quarter of all clothing and laundry claims in recent years were exactly $150 – the amount claimable without a specific requirement to keep detailed records about the work-related clothing expenses.

TIP: The ATO has issued a stern reminder that the $150 threshold is not a "safe amount" that everyone can claim. We can help make sure your tax return claims are done right – contact us to find out more.

Advisory Board to help clamp down on the black economy

The Government is establishing a new Advisory Board to support its reform agenda to disrupt the black economy.

The term "black economy" refers to people and businesses who operate outside the tax and regulatory systems, or who are known to the authorities but do not correctly report their tax obligations.

The Advisory Board will include members of the private and public sector who will provide strategic advice and contribute to a report every five years about new threats emerging in the black economy.

The Government's related actions to date have included a $10,000 limit on cash transactions, a comprehensive strategy to combat illicit tobacco, reforms to the ABN system, restricting government procurement to businesses that have acceptable tax records, and $315 million in additional funding to the ATO to increase its enforcement activity against black economy behaviour.

Superannuation system: Productivity Commission draft report

The Productivity Commission has released a draft report that recommends a range of changes to improve Australia's superannuation system.

With default funds being tied to the employer and nsot the employee, many people end up with another super account every time they change jobs. Currently, a third of accounts (about 10 million) are unintended multiples, meaning that Australians pay excess fees and insurance premiums totalling $2.6 billion every year. According to the Commission, fixing these problems would lift retirement balances for members across the board – for example, a new workforce entrant today could earn around $407,000 more by the time they retire in 2064.

TIP: The end of the financial year is a good time to take a closer look at your super arrangements. Do you need to roll together accounts or change funds? Could you make salary sacrifices to reduce your tax payments and boost your retirement balance? Let us know if you're considering these super questions.

SMSF compliance: don't slip up

With the self managed superannuation fund (SMSF) annual return lodgment deadline upon us, minds should have already turned to meeting compliance requirements. The 2016–2017 financial year includes a few twists and turns which trustees should factor in to avoid late lodgment.

The major super changes from 1 July 2017 mean that SMSFs members with a pension balance of more than $1.6 million may need to consider reducing any excess, resetting CGT cost bases and getting actuarial certificates. This is in addition to the usual issues such as calculating taxable income and what expenses are deductible for the SMSF.

With all of these changes to be considered, the ATO has allowed an extension to lodge returns by 2 July.

Recordkeeping reminders

Good SMSF compliance hinges substantially on good recordkeeping. Some SMSFs have resolutions and minutes for every investment transaction while others don't go into much detail at all. But what level of detail is really necessary? The answer lies in the fund's trust deed, investment strategy and what is required by the tax and superannuation legislation.

For example, a fund with a single balanced option is unlikely to have to meet each time a contribution is made to decide where the money should go. In contrast, if the fund's investment strategy is couched in broad terms and a member wishes to select specific investments as permitted by the fund's trust deed, then documents indicating whether the selection is consistent with the overall investment strategy of the fund are likely to be worthwhile.

The superannuation law requires that some records must be retained for various periods. For example, the fund's accounting records, annual returns and other statements must be kept for at least five years. Minutes of meetings for purposes such as reviewing the fund's investment strategy, changes of trustees, member reports and storage of collectables and personal use assets need to be kept for at least 10 years. The fund's trust deed and other essential documents should be retained if the trustees consider the fund may be subject to challenge.

Keeping records for an SMSF serves many purposes to provide a "corporate memory" for the fund, which may be required for compliance purposes as well as to protect trustees from any unfounded challenges.