The Strategist August 2017

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Collins Hume

ACCOUNTANTS
BUSINESS ADVISERS
FINANCIAL ADVISERS
MORTGAGE BROKERS

Collins Hume is Ballina's Business of the Year 2017!

Collins Hume named 2017 Business of the Year, Professional Business of the Year and Sustainable Business of the Year at Ballina Chamber's Business Excellence Awards this month.

The Ballina Shire Northern Star Business Excellence program is designed to recognise and reward excellence in business, foster innovation and encourage a focus on sustainability, corporate citizenship and safe work practices. Award winners were announced before a sold-out business audience.

Collins Hume has been providing tax, accounting, strategic business and wealth advice services to Northern Rivers' businesses and individuals for over 30 years. Collins Hume Partner Peter Fowler and Business Manager David Keith accepted all three awards on behalf of our business.

In accepting the 2017 Business of the Year award Peter Fowler said, "In everything Collins Hume does we ask ourselves 'Is this how an inspiring business does it?' By doing so, we are constantly improving our systems, procedures and client relationships."

When Collins Hume began in 1980 our mission was simple: Deliver the best value tax service in Ballina. But the world has changed and so has our business along with it.

"Today, we've added to our mission an overriding purpose to inspire business owners to achieve business and lifestyle success in powerful and meaningful ways, " said Peter. "By partnering with and inspiring business owners to achieve extraordinary results, collectively we build stronger communities, change lives and create a better world."

The accolades cap off an amazing 12 months for Collins Hume who were already recognised with three awards at the 2017 Australian Accounting Awards as well as recognition from other industry and regional business bodies.

On receiving the Professional Services award, David gave a nod to the Collins Hume team, "They really are a fantastic group of people. It's through their collective hard work that we get to shine and be recognised at these awards."

"As accountants we realise we have the ability to change lives on a daily basis. Not only with our clients and the advice we provide to improve their business and lives but through our giving to people around the world who are much less fortunate than us. It really is an exciting time to be in business and a privilege to have these opportunities to change lives."

Congratulations, too, to Collins Hume client Active Pest Management who won Trade & Construction Business of the Year and Workplace Safety Business of the Year.

2017 SMSF & Accounting Awards

Collins Hume are shortlisted as Finalists in six categories at the state-based 2017 SMSF & Accounting Awards. Peter Fowler, David Keith and Chris Priester are also Finalists across four separate categories.

The state-based awards recognise individuals and businesses making their mark in SMSF and accounting advice by championing professionalism, quality advice and innovation. NSW winners will be announced at the awards dinner in Sydney on 30 November. Read more

Ballina
97 Tamar Street
PO Box 731
Ballina NSW 2478

Byron Bay
Shop 7B
6 Lawson Street
Byron Bay NSW 2481

Lismore
Suite 3A
186 Molesworth Street
Lismore NSW 2480

P (02) 6686 3000
F (02) 6686 7854
E mail@collinshume.com.au
ABN 35 670 434 379

Collins Hume helps get new Earth Bottles business off the ground

In a world of fast moving consumer goods and quick fixes, it's nice to know that taking a sip from a tote bottle can mean so much more than just quenching your thirst on the go.

Byron Bay's Danni Carr began her drink bottle journey when she had the idea to source eco-friendly products for her husband Ash Grunwald's fan base. The positive feedback led Danni to creating Earth Bottles.

"It is so simple and such an easy thing to change, from plastic to a sustainable, reusable and beautiful product," says Danni.

In a bid to discourage the use of plastic, Earth Bottles Founder and CEO Danni has single-handedly created a product range that raises awareness for the environment and makes doing our 'little bit' a breeze.

"From our humble beginnings Earth Bottles expanded out of Byron Bay to stockists around Australia, New Zealand, Bali and around the world," says Danni. "We get such joy seeing our brand pop up on Instagram, Facebook and around the world but especially in our own community."

Throughout this time, Danni has had Peter Fowler on hand for commercial support and business guidance. From the initial start up advice and structuring of her business to ongoing strategic business planning, tax minimisation and everything else in between, "Peter helps us with everything."

"I had been with Pete for ages so when I started selling a few Earth Bottles we had a meeting to make some early plans around what was still essentially a hobby then."

"We were growing organically, so I recruited a friend to help with sales and things went crazy!"

"Pete has been great help as a mentor," says Danni. "I jump on the phone to get his ideas or a different perspective. His knowledge has been invaluable over the years."

"When he analysed what each bottle cost me, it was eye opening to know what I was doing and gave me wiggle room to negotiate – information I didn't have up until then."

From there, Danni's passion for the environment led her to creating other reusable products like coffee cups and expanding the Earth Bottles range further with reusable straws and tea canisters.

The Earth Bottles name has always underpinned what she's set out to achieve.

Danni's efforts resonate very much with what Collins Hume does in terms of giving back. Both businesses really want to help others and create a better world.

"We donate a portion of profits to Breast Cancer Network Australia, beyondblue, Clean Coast Collective and, for every gift pack sold, a tree is planted for Fifteen Trees. That makes a huge difference to people as consumers knowing that they're helping the planet and giving back. It's also our point of difference at trade fairs and is often the reason stockists choose our product over others."

Did we mention Danni is running her business from Bali?

"I work behind the scenes plus travel with Ash's work but I can have the lifestyle I want," says Danni. "That could mean design, planning or coming up with new ideas for my Australian business being run from overseas, thanks to Briody in my Australian office and Collins Hume."

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Main residence exemption removed for non-residents

The Federal Budget announced that non-residents will no longer be able to access the main residence exemption for Capital Gains Tax (CGT) purposes from 9 May 2017 (Budget night).

Now that the draft legislation has been released, more details are available about how this exclusion will work.

Under new rules, the main residence exemption – the exemption that prevents your home being subject to CGT when you dispose of it – will not be available to non-residents. The draft legislation is very 'black and white.' If you are not an Australian resident for tax purposes at the time you dispose of the property, CGT will apply to any gain you made – this is in addition to the 12.5% withholding tax that applies to taxable Australian property with a value of $750,000 or more (from 1 July 2017).

Transitional rules apply for non-residents affected by the changes if they owned the property on or before 9 May 2017, and dispose of the property by 30 June 2019. This gives non-residents time to sell their main residence (or former main residence) and obtain tax relief under the main residence rules if they choose.

Interestingly, the draft rules apply even if you were a resident for part of the time you owned the property. The measure applies if you are a non-resident when you dispose of the property regardless of your previous residency status.

Special amendments are also being introduced to apply the new rules consistently to deceased estates and special disability trusts to ensure that property held by non-residents is excluded from the main residence exemption.

The rules are also tightened for property held through companies or trusts to prevent complex structuring getting around the rules. The draft amends the application of CGT to non-residents when selling shares in a company or interests in a trust. The rules ensure that multiple layers of companies or trusts cannot be used to circumvent the 10% threshold that applies in order to determine whether membership interests in companies or trusts are classified as taxable Australian property.

The residency tests to determine who is a resident for tax purposes can be complex and are often subjective. Please contact us if you would like to better understand your position and the tax implications of your residency status. Simply living in Australia does not make you a resident for tax purposes, particularly if you continue to have interests overseas.

Earth Bottles article continues

Danni is always trying to think of new things that might diversify her business.

"I'm currently working with an Arnhem Land artist on some indigenous design concepts we have in the pipeline," says Danni. "And we've started donating to the indigenous charity Hope for Health as well as developing a new range of coffee cups and food jars."

"We've also started doing reusable shopping bags and tees to purely raise money for The Bali Baby House."

Danni is particularly encouraged by where Australia is going with our war on waste so she's out to educate as well as help consumers to make sustainable choices. Her unique approach has already earned Earth Bottles a Life Instyle Eco Award and we reckon things are only looking up for Danni and her new business. Read more at https://earthbottles.com.au.

Complementary Risk Survey

Answer just 10 questions to help you identify and assess key risks in your business: http://bit.ly/2uazlye. Once you have completed the survey you will receive our personalised Business Risk Scorecard.

What to know when selling a property valued at $750k or more

Every vendor selling a property needs to prove that they are a resident of Australia for tax purposes unless they are happy for the purchaser to withhold a 12.5% withholding tax.

From 1 July 2017, every individual selling a property with a sale value of $750,000 or more is affected. To prove you are a resident, you can apply online to the Tax Commissioner for a clearance certificate, which will remain valid for 12 months.

While these rules have been in place since 1 July 2016, on 1 July 2017 the threshold for properties reduced from $2M to $750,000 and the withholding tax level increased from 10% to 12.5%.

The intent of the foreign resident CGT withholding rules is to ensure that tax is collected on the sale of taxable Australian property by foreign residents. But, the mechanism for collecting tax affects everyone regardless of their residency status.

Properties under $750,000 are excluded from the rules. This exclusion can apply to residential dwellings, commercial premises, vacant land, strata title units, easements and leasehold interests as long as they have a market value of less than $750,000. If the parties are dealing at arm's length, the actual purchase price is assumed to be the market value unless the purchase price is artificially contrived.

If required, the Tax Commissioner has the power to vary the amount that is payable under these rules, including varying the amounts to nil. Either a vendor or purchaser may apply to the Commissioner to vary the amount to be paid to the ATO. This might be appropriate in cases where:

- The foreign resident will not make a capital gain as a result of the transaction (e.g. they will make a capital loss on the sale of the asset)
- The foreign resident will not have a tax liability for that income year (e.g. where they have carried forward capital losses or tax losses, etc) or
- Where they are multiple vendors, but they are not all foreign residents

If the Commissioner agrees to vary the amount, it is only effective if it is provided to the purchaser. The withholding rules are only intended to apply when one or more of the vendors is a non-resident. However, the rules are more complicated than this and how they apply depends on whether the asset being purchased is taxable Australian real property or a company title interest relating to real property in Australia.

Contact Collins Hume on 02 6686 3000 to navigate the foreign resident CGT withholding rules if you are unsure how they are likely to apply to a transaction.

Does your current loan still meet your needs?

Time for an investment loan check?

Over time circumstances change so it's important to check – does the loan you currently have still meet your needs?

With talk of variable interest rate rises, should you consider the options of fixed rates to protect yourself from future interest rate hikes?

Our Lending Specialist, David Seymour, can provide a complimentary review of your investment property loan to ensure it is still right for you.

Regional Finance Solutions is not aligned to any banks or home loan providers. They shortlist the best loans from a range of providers (including big banks) to suit your specific needs.

Contact David on 0418 785 747 and let him help allay any concerns you may have on your investment property mortgage's health.

David Seymour is an Authorised Credit Representative No 477331 of Regional Finance Solutions Australian Credit License No 484980

Local Knowledge | National Experience | Regional Solutions

The Tax Commissioner's hit list

Every so often the ATO sends a 'shot across the bow' warning taxpayers where their gaze is focussed. Last month in a speech to the National Press Club, the Tax Commissioner did just that.

Part of the reason for this public outing is the gap between the amount of tax the ATO collects and the amount they think should be collected – a gap of well over 6% according to Commissioner Chris Jordan.

"The risks of non-compliance highlighted by our gap research so far in this market are mainly around deductions, particularly work related expenses. The results of our random audits and risk-based audits are showing many errors and over-claiming for work related expenses – from legitimate mistakes and carelessness through to recklessness and fraud. In 2014-15, more than $22 billion was claimed for work-related expenses. While each of the individual amounts over-claimed is relatively small, the sum and overall revenue impact for the population involved could be significant," the Commissioner stated.

Individuals – the hit list

- Claims for work-related expenses that are unusually high relative to others across comparable industries and occupations
- Excessive rental property expenses
- Non-commercial rental income received for holiday homes
- Interest deductions claimed for the private proportion of loans
- People who have registered for GST but are not actively carrying on a business

While small in value, the ATO are also concerned about the amount of people who appear to be claiming deductions by default for items such as clothing expenses. In 2014-15, around 6.3 million people made a claim for $150 for work related clothing – the level you can claim without having to fully substantiate your expenses. Those 6.3 million claims amounted to $1.8 billion in deductions.

These are just a small sample of the ATO's areas of focus. Other areas include tax and travel related expenses and self-education expenses. We'll guide you through the risk areas pertinent to your individual situation but if you are concerned about any of the 'hit list' areas mentioned, please contact Collins Hume on 02 6686 3000.

Small business – the hit list

- Those deliberately hiding income or avoiding their obligations by failing to register, keep records and/or lodge accurately
- Businesses that report outside of the small business benchmarks for their industry
- Employers not deducting and/or not sending PAYG withholding amounts from employee wages
- Employers not meeting their superannuation guarantee obligations
- Businesses registered for GST but not actively carrying on a business
- Failure to lodge activity statements
- Incorrect and under-reporting of sales

If your business is outside the ATO's benchmarks, it's important to be prepared to defend why this is the case. This does not mean that your business is doing anything wrong, but it increases the possibility that the ATO will look more closely at your business and seek an explanation.

Click here to review other ATO hit lists for Private Groups and Property Developers.

Ballina
97 Tamar Street
PO Box 731
Ballina NSW 2478

Byron Bay
Shop 7B
6 Lawson Street
Byron Bay NSW 2481

Lismore
Suite 3A
186 Molesworth Street
Lismore NSW 2480

P (02) 6686 3000
F (02) 6686 7854
E mail@collinshume.com.au
ABN 35 670 434 379

Super concessions for first home savers and downsizers

Super may offer avenues to help downsizers and first home savers.

Last month the detail of the housing initiatives announced in the Federal Budget were released for consultation. We explore what's on offer and the implications.

Super concessions for downsizers

If you are over 65, have held your home for 10 years or more and are looking to sell, from 1 July 2018 you might be able to contribute some of the proceeds of the sale of your home to superannuation.

The benefit of this measure is that you can contribute a lump sum of up to $300,000 per person to superannuation without being restricted by the existing non-concessional contribution caps – $100,000 subject to your total superannuation balance – or age restrictions. It's a way of building your superannuation quickly and taking advantage of superannuation's concessional tax rates. The $1.6 million transfer balance cap will continue to apply so your pension interests cannot exceed this amount. And, the Age Pension means test will continue to apply. If you are considering using this initiative, it will be important to get advice to ensure that you are eligible to use this measure and the contribution does not adversely affect your overall financial position.

The downsizer initiative applies to the sale of any dwelling in Australia – other than a caravan, houseboat or mobile home – that you or your spouse have held continuously for at least 10 years. Over those 10 years, the dwelling had to have been your main residence for at least part of the time. As long as you qualify for at least a partial main residence exemption (or you would qualify for the exemption if a capital gain arose) you may be able to access the downsizer concession. This means that you do not actually need to have lived in the property for the 10-year period being tested.

The rules also take into account changes of ownership between two spouses over the 10-year period prior to the sale. This could assist in situations where a spouse who owned the property has died and their interest is inherited by their surviving spouse. The surviving spouse can count the ownership period of their deceased spouse in determining whether the 10-year ownership period test is satisfied. This rule could also assist in situations where assets have been transferred as a result of marriage or de facto relationship breakdown.

In general, the maximum downsizer contribution is $300,000 per contributor ($600,000 for a couple) but must only come from the proceeds of the sale. Contribution(s) need to be made within 90 days after your home changes ownership (generally settlement date) but you can apply to the ATO to extend this period. Note, the initiative only applies once – you cannot use it again for future properties.

Super to save for a first home

From 1 July 2018, the first home savers scheme will enable first-home buyers to save for a deposit inside their superannuation account, attracting the tax incentives and some of the earnings benefits of super.

Home savers can make voluntary or non-concessional contributions of $15,000 per year within existing caps, up to $30,000 total.

When you are ready to purchase, you can withdraw those contributions along with any deemed earnings in order to help fund a deposit on your first home. To extract the money from super, home savers apply to the Commissioner of Taxation for a first home super saver determination who then determines the maximum amount that can be released from the super fund. When the amount is released from super, it is taxed at your marginal tax rate less a 30% offset.

To access the scheme, home savers must be 18+ years of age and cannot ever have held taxable Australian real property. Call us on 02 6686 3000 to find out more.

New rules claiming plant and equipment in rental properties

Proposed changes could impact investors

On 9 May 2017 the Government proposed changes to the depreciation of plant and equipment assets in the Federal Budget. These new rules could impact on investors purchasing rental properties.

The Government made major changes to depreciation legislation last in the mid 1980s.

As such, concerns are circulating about the impact of changes on investors' existing arrangements, future purchases and, more widely, the property market.

The upside for investors is that properties purchased prior to 7:30pm on 9 May 2017 (Budget Night) remain unaffected, as the policy will be grandfathered. This means that any investor who exchanged contracts prior to this date can continue to claim depreciation deductions as normal.

Proposed changes outlined in draft legislation Section 2 of Treasury Laws Amendment (Housing Tax Integrity) Bill 2017 remove a subsequent owner's ability to claim a depreciation deduction for previously used plant and equipment assets in properties which exchanged contracts after Budget Night 9 May.

The draft legislation also confirms that the proposed changes will only apply to second-hand residential properties. Any investor who purchases a brand new property can continue to claim depreciation for plant and equipment as normal.

The changes won't affect an investor's ability to claim the capital works component; depreciation of plant and equipment for non-residential/commercial properties is also unaffected.

The Government also advises that amendments to deductions for plant and equipment assets held in residential properties will not affect those carrying on a business, corporate tax entities, superannuation plans (other than SMSFs) and those who hold a property in a large unit trust.

While, generally, the integrity measure has merit, the proposed changes go much further than what is necessary to deliver on the Government's intention of stopping subsequent owners from claiming deductions in excess of an asset's value.

The approach proposed in the draft legislation treats residential property investors differently by extinguishing a property investor's ability to claim a deductions based upon a transaction.

We believe this is caused by gaps in current legislation around establishing a depreciable value for second-hand plant and equipment.

The Government has provided investors with the opportunity to have their say regarding the proposed changes by making a submission and taking part in the public consultation here.

Additionally, a tax depreciation schedule from a specialist Quantity Surveyor is beneficial and necessary to ensure investors maximise and claim deductions accurately.

Read more about the proposed changes outlined in the Federal Budget at The Balancing Act or call Collins Hume on 02 6686 3000.

Happy birthday in August Chris P!

Crowd-Sourced Funding (CSF)

Comparison with Early Stage Innovation Companies (ESIC)

Crowd-Sourced Funding Equity Raising commences 29 September 2017. There have been questions about the comparison of Crowd-Sourced Funding Companies with Early Stage Innovation Companies. The following comparison chart gives an overview of the differences between the two types of corporate entities:

	ESIC	CSF
Maximum expenditure last year	$1M	No limit
Maximum income last year	$200K	$25M
Not listed on a Stock Exchange	✓	✓
Age of company important	✓	Not important
Business activity important	✓	Not important
Maximum investment – Retail Investor every 12 months	$50K	$10K
Tax Offsets on Investment	20%	N/A
• Retail Investor - maximum	$10K	N/A
• Sophisticated Investor - maximum	$200K	N/A
Capital Gains Tax possible exemption	✓	N/A
Capital raising limit every 12 months	N/A	✓
Amount	N/A	$5M
Eligibility decision maker	AusIndustry / ATO	Intermediary (has AFSL)
Type of company	Pty Ltd	Unlisted Public Company
Auditor appointment first five years	N/A	✓ (if raised over $1M)
Maximum Number of directors	1	3
Formal process for capital raising	N/A	✓
Special reporting to ATO	✓ (by 31 July)	N/A
Capital raising opportunities	✓ (Started Jul 2016)	✓ (from 29/09/17)

Export Market Development Grant

Assists exporters by partly reimbursing expenditure on developing export markets. The grant is administered by Austrade.

Any entity can claim if eligible expenditure of $15,000+ has been spent and applicant is an Australian resident with turnover under $50M per year. Key expense categories are:

- registration and insurance of eligible intellectual property
- marketing consultants
- overseas market visits
- communication costs
- product samples (free)
- trade fairs – seminars and in-store promotions
- promotional material
- overseas representation
- bringing overseas buyers to Australia

The maximum grant is $150,000 with individual sub-limits within various categories. If you currently export or are planning to export and believe you have spent more than $15,000 on these type of items, contact us about your eligibility to apply for an Export Market Development Grant. Applications must be lodged by 30 November 2017.

R&D Projects?

Register with AusIndustry

If you operate your business as a company and in 2016/17 the company undertook research and development projects (irrespective of the number of projects) and your total expenditure, including wages and salaries of team members and management involved in the research and development activities, exceeded $20,000, then the company could be eligible for a Research and Development Tax Rebate.

The rebate is determined when the company's income tax return is lodged with the Australian Taxation Office.

The rebate is calculated at 43.5% of the eligible research and development expenditure, if the company's turnover is under $20 million per annum. If the turnover is over $20 million, the tax rebate is calculated at 38.5% of the eligible research and development expenditure.

However, you cannot claim any of these rebates unless you have first registered your company's research and development projects with AusIndustry. This registration must be completed by 30 April 2018, or the date of lodgement of the company's income tax return, whichever is the earlier.

Click here to access the R&D registration forms from AusIndustry or call Collins Hume on 02 6686 3000.