BUSINESS – 2018

Corporate tax rate
Companies that are carrying on a business and have turnover of less than $25 million will be subject to company tax at a rate of 27.5% in 2018 (i.e. company tax will only be 30% in 2018 if turnover is $25 million or more or the company is not carrying on a business).
The rate at which dividends will be franked in 2018 will depend on whether the company's turnover of the previous year (i.e. 2017) is less than the current year's turnover benchmark (i.e. $25 million for 2018).

Deductions available for small business entities
Businesses that are small business entities (e.g. companies, trusts, partnerships or sole traders with a total turnover of less than $10 million) will qualify for the following tax concessions in the 2018 income tax year:

- $20,000 instant asset write-off (e.g. immediate deduction if buy and install depreciating assets costing less than $20,000).
- Simplified depreciation rules (e.g. accelerated depreciation rates of 15% or 30% for depreciable assets costing $20,000 or more.
- Small business restructure rollover.
- Immediate deduction for start-up costs.
- Immediate deduction for certain prepaid expenses;
- Simplified trading stock rules (e.g. don't need to do end of year stocktake if value of the stock has changed by less than $5,000).
- Simplified PAYG rules (e.g. ATO to calculate PAYG instalments).

Please note that the $10 million turnover threshold will not apply to the application of the small business CGT concessions – to qualify for the small business CGT concessions, businesses must still have an annual turnover of less than $2 million or satisfy the $6 million net asset value test.

$20,000 instant asset write-off
Small business entities ($10 million turnover threshold for 2017 onwards) will have the benefit of the $20,000 instant asset write-off for most new or second-hand depreciating assets bought and used or installed ready for use in the business in the 2018 income tax year.
Whether GST should be included in working out whether the $20,000 threshold is met depends on whether the purchaser is registered for GST or not:

- If the purchaser is registered for GST - the GST-exclusive amount is the cost of the asset; and
- If the purchaser is not registered for GST - the GST-inclusive amount is the cost of the asset.

Small business entities that make eligible purchases of less than $20,000 and use or install the asset ready for use before 30 June 2018 will be able to instantly claim a tax deduction for the cost of that asset in the 2018 income tax year.

However, assets costing $20,000 or more can be pooled in a general small business pool, treated as a single depreciating asset and depreciated at:

- 15% for such assets acquired during the 2018 income tax year; and
- 30% for the 1 July 2017 opening written down value balance of the assets in such a pool.

Originally, 2018 was to have been the last year taxpayers could claim the $20,000 instant asset write-off – however, the recent 8 May 2018 Federal Budget has proposed to extend this write-off by another year – which will mean that after 30 June 2019 (i.e. from 1 July 2019), the instant asset write-off threshold will revert to $1,000 a year.

Immediate deductibility of start-up costs
Small businesses started this year would be entitled to an immediate deduction for all start-up costs (e.g. lawyer and accountant fees, costs of company constitutions or trust deeds) incurred in the 2018 income tax year.

Claiming small business CGT concessions.
Broadly, if a business is being sold that has an aggregated turnover of less than $2 million (i.e. CGT small business entity) or the value of its net CGT assets is $6 million or less (i.e. $6 million net asset value test), the business may qualify for the small business CGT concessions (provided other conditions are met).
Depending on the particular circumstances (e.g. an owner is thinking of selling the business, but is unsure when to do so), if the business is expanding rapidly (e.g. it exceeds the $2 million turnover test) and it may be at risk of also breaching the $6 million net asset value test, the owner may consider selling the business before breaching those tests so it can qualify for the small business CGT concessions.

Examples of the concessions are:

- 15-year exemption (no tax payable);
- 50% active asset reduction (a 50% CGT discount in addition to the 50% general discount);
- Retirement exemption (up to $500,000 life-time tax-free limit); and
- Active asset roll-over (minimum 2 years' deferral).
- A business may be entitled to any of the above concessions that may result in no tax on the capital gain made on the sale of the business.

Because the requirements to qualify for these concessions are complicated, we would strongly encourage those affected to seek our professional advice.

Further, when commencing a new business, it would be prudent for the above CGT concessions to be considered to ensure eligibility at the time of eventual sale of the business.

Beware of private company loans and unpaid trust distributions.
The shareholders of some companies operating businesses often treat their companies as their own personal asset by making drawings from the companies to either fund other business interests or their private lifestyle.
If such cash advances are documented with a complying loan agreement requiring minimum principal and interest repayments at the benchmark interest rate by 30 June, such advances will not give rise to a Division 7A deemed dividend.

Care must also be taken when a private company makes a loan, payment or forgives a debt of a shareholder (or the shareholder's associate) or if a trust declares a distribution to a private company without the cash payment to the company; such unpaid present entitlements (UPEs) made after 16 December 2009 by a trust to a company may be treated as either a loan by the company to the trust or remain a UPE (if put on sub-trust).

Single Touch Payroll
From 1 July 2018, employers with 20 or more employees (as determined by the number of employees an employer has on 1 April 2018) will have to run their payroll and pay their employees through accounting and payroll software that is Single Touch Payroll (STP) ready. It is a major reporting change for employers and means employers will report payments such as salaries and wages and allowances, PAYG withholding and super information to the ATO directly from their payroll solution at the same time they pay their employees.

Employers will need to have done a headcount on 1 April 2018 to determine if they are what is called a "substantial employer" and therefore will be required to use STP. This count has to include:

- full-time and part-time employees;
- Casual employees who are on the payroll on 1 April 2018 and worked any time during March 2018;
- any employee absent or on leave;
- Seasonal employees; overseas employees.
- NOT included are: casual employees who did not work in March 2018; independent contractors; company directors.

GST on low value goods from 1 July 2018
From 1 July 2018, overseas vendors with a GST turnover of AUD$75,000 or more (calculation of turnover is limited to Australian sales only), will have to account for GST on sales of low value goods (i.e. imported goods costing AUD$1,000 or less) to consumers in Australia.

Report Payments to Contractors in the building Industry
Businesses in the building and construction industry must report the total payments they make to contractors on a taxable payments annual report by 28 August 2018.
Currently there are proposals to extend this taxable payment reporting regime to;

- cleaners and couriers (from 1 July 2018) and
- security providers, road transport and computer design services (from 1 July 2019).

Bring forward tax deductible expenses through prepayments
To qualify for deductions in the 2018 income tax year, taxpayers may bring forward up-coming expenses.

Examples of business expenses that can be prepaid:

- Short-term consumables such as office supplies and stationery;
- Unpaid workers' compensation insurance premium instalments; or
- Superannuation guarantee payments (only due in July).

Also note that bonuses and directors' fees that are confirmed and committed to by 30 June (as evidenced in Board minutes), may be deductible in 2018, even if these fees are only paid after 30 June 2018.

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