



Your Money Matters

May 2017

Practice Update

May 2017

Company tax cuts pass the Senate with amendments

***Editor:** After a marathon few days of extended sittings (the last before the Federal Budget in May), the Government finally managed to get its company tax cuts through the Senate, but it was not without compromise.*

The following outlines the final changes to the law, as passed by the Senate, including a recap of which of the original proposals remained intact and also which ones were changed.

Increase to the SBE turnover threshold

As was previously announced, the Small Business Entity ('SBE') definition has changed with respect to the turnover eligibility requirement.

The aggregated turnover threshold has increased from \$2 million to **\$10 million** with effect from 1 July 2016 (i.e., the *current*, 2017, income year).

Note that, whilst the increase in this threshold will expand access to most SBE concessions (e.g., simplified depreciation), this change will **not** apply with respect to:

- the Small Business Income Tax Offset (a special **\$5 million threshold** will apply when determining eligibility for this tax offset); and
- the Small Business CGT concessions (the aggregated turnover threshold to access these concessions will **remain at \$2 million**, although taxpayers may still seek to satisfy the \$6 million maximum net assets test as an alternative method of obtaining access to these concessions).

Reduction in the corporate tax rate

The most significant difference between the Government's original proposals and what was finally passed by Parliament was in relation to the reduction in the corporate tax rate.

Although the corporate tax rate will still decrease to 25% (by the 2027 income year, as originally proposed), access to the reduced corporate tax rate will be restricted to corporate entities that **carry on business** with an aggregated turnover of **less than \$50 million** (from the 2019 income year).

The following table provides a summary of how the progressive reduction in the corporate tax rate will apply.

Income Year	Aggregated turnover	Company tax rate
2016	< \$2 million	28.5%
2017	< \$10 million	27.5%
2018	< \$25 million	
2019		
2020		
2021		
2022		
2023		
2024		
2025	< \$50 million	27%
2026		26%
2027 & later		25%

Editor: *As noted above, corporate entities with at least \$50 million aggregated turnover or, more importantly, companies that do not carry on business (e.g., passive investment companies and ‘bucket companies’) will continue to have a corporate tax rate of 30%.*

Changes to the franking of dividends

Prior to this income year, companies that paid tax on their taxable income at 28.5% could still pass on franking credits to their shareholders at a rate of 30%, subject to there being available franking credits.

However, with effect from 1 July 2016 (i.e., this income year), the maximum franking credit that can be allocated to a frankable distribution paid by a company will be based on the tax rate that is applicable to the company.

Editor: *Please contact this office if you would like to know how these changes will affect your business specifically.*

FBT: Benchmark interest rate

The benchmark interest rate for the 2017/18 FBT year is 5.25% p.a. (5.65% applied in 2016/17).

This rate is used to calculate the taxable value of:

- u a loan fringe benefit; and
- u a car fringe benefit where an employer chooses to value the benefit using the operating cost method.

Example

On 1 April 2017 an employer lends an employee \$50,000 for five years at an interest rate of 5% p.a., with interest being charged and paid 6 monthly, and no principal repaid until the end of the loan.

The actual interest payable by the employee for the current year is \$2,500 ($\$50,000 \times 5\%$). The notional interest, with a 5.25% benchmark rate, is \$2,625.

Therefore, the taxable value of the loan fringe benefit is \$125 (i.e., \$2,625 – \$2,500).

FBT: Cents per kilometre basis

The rates to be applied where the cents per kilometre basis is used for the 2017/18 FBT year in respect of the private use of a vehicle (other than a car) are:

Engine capacity	Rate per kilometre
0 – 2,500cc	53 cents
Over 2,500cc	63 cents
Motorcycles	16 cents

***Editor:** The ATO also determined that the small business record keeping exemption threshold for the 2017/18 FBT year is \$8,393.*

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.



Recipe of the Month

Ingredients:

- 4 medium apples, peeled and chopped
- 2 tablespoons butter
- 1/2 cup packed brown sugar
- 1 teaspoon ground cinnamon
- 2 teaspoons cornstarch
- 1 sheet frozen puff pastry, thawed
- Egg wash (1 egg beaten with 1 teaspoon water)

Method:

- 1) Heat oven to 200°C. Line cookie sheet with cooking parchment paper.
- 2) In 2-quart saucepan, heat apples, butter, brown sugar, cinnamon and cornstarch to boiling over medium-high heat. Reduce heat; simmer about 5 minutes or until thickened and apples are tender. Set aside to cool slightly.
- 3) Sprinkle work surface lightly with flour. Roll out thawed puff pastry into 15-inch square. Cut into 4 smaller squares.
- 4) Brush each square with egg wash; spoon apple mixture onto center of each. Fold each in half diagonally to form a triangle; press edges together to seal. Use back of fork to crimp edges. Transfer to cookie sheet; brush with egg wash. Use sharp knife to cut a few vents into each turnover.
- 5) Bake 25 to 30 minutes or until golden.

JOKE OF THE MONTH:

An Amish boy and his father were in a mall.

They were amazed by almost everything they saw, but especially by two shiny silver walls that could move apart and then slide back together again.

The boy asked, 'What is this Father?'

The father (never having seen an elevator) responded, 'Son, I have never seen anything like this in my life, I don't know what it is.' While the boy and his father were watching with amazement, a fat old lady in a "Gopher" (motorised wheelchair) moved up to the moving walls and pressed a button.

The walls opened, and the lady rolled between them into a small room. The walls closed and the boy and his father watched the small numbers above the walls light up sequentially.

They continued to watch until it reached the last number, and then the numbers began to light in the reverse order.

Finally the walls opened up again and a gorgeous 24-year-old blond stepped out.

The father, not taking his eyes off the young woman, said quietly to his son.....
'Go get your Mother'