2018 Tax Time Changes

INDIVIDUAL TAX PAYERS

Limiting plant and equipment depreciation deduction on residential investment properties

From 1 July 2017, the Government will limit plant and equipment depreciation deductions to outlays actually incurred by investors in residential properties.

Investors who purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim a deduction over the effective life of the asset. However, subsequent owners of a property will be unable to claim deductions for plant and equipment purchased by a previous owner of that property. Acquisitions of existing plant and equipment items will be reflected in the cost base for CGT purposes for subsequent investors.

Plant and equipment items are usually mechanical fixtures, or those that can be 'easily' removed from a property such as dishwashers and ceiling fans. These changes will apply on a prospective basis, with existing investments grandfathered.

No deduction for travel expenses for residential properties

From 1 July 2017, the Government will disallow deductions for travel expenses related to inspecting, maintaining or collecting rent for a residential rental property.

This measure will not prevent investors from claiming a deduction for costs incurred in engaging third parties, such as real estate agents, for property management services.

Tax deductions for personal superannuation contributions

Eligibility rules for claiming a deduction for personal superannuation contributions have changed. Previously, only those taxpayers who were primarily self-employed could claim this deduction.

From 1 July 2017, most taxpayers under 75 years old (including those aged 65 to 74 who meet the work test) are able to claim a deduction for personal super contributions regardless of their employment arrangement.

Income threshold for spouse super contributions tax offset

From 1 July 2017, the income threshold for claiming the tax offset for spouse super contributions increased from $10,800 to $37,000. The maximum tax offset of $540 gradually reduces for income above this level and completely phases out for income above $40,000. However, there are some eligibility rules to claim this tax offset.

SMALL BUSINESSES

Extending the $20,000 immediate write-off for small business

The $20,000 instant write off of eligible assets has been extended to 30th June 2019 for small businesses with an aggregated annual **turnover less than $10 million**. This means small businesses will be able to immediately deduct purchases of eligible assets costing less than $20,000 first used or installed ready for use by 30 June 2018. Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool (the pool) and depreciated at 15% in the first income year and 30% each income year thereafter. The pool balance can also be immediately deducted if the balance is less than $20,000 over this period.

Reduced company tax rate to continue

Small businesses owned through company structure will continue to enjoy lower company tax rate of 27.50%. For this purpose, small business mean company having turnover less than 25 million and carrying on a business.

New integrity measure for the small business CGT concessions

The Government will amend the small business CGT concessions with effect **from 1 July 2017** to ensure that the concessions can only be accessed in relation to assets used in a small business or ownership interests in a small business.

This proposed amendment is targeted at taxpayers who are able to access these concessions for assets which are unrelated to their small business, for instance through arranging their affairs so that their ownership interests in larger businesses do not count towards the tests for determining eligibility for the concessions.

The small business CGT concessions will continue to be available to small business taxpayers with aggregated turnover of less than $2 million or business assets less than $6 million.

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SUPERANNUATION

First home superannuation saver scheme

The Government will encourage home ownership by allowing first homebuyers to 'build a deposit' inside their superannuation fund:

Voluntary superannuation contributions of up to $15,000 per year, and $30,000 in total, can be contributed by first homebuyers **from 1 July 2017**. The contribution must be within existing concessional and non-concessional caps. Concessional contributions are taxed at 15% in the fund and earnings on contributions are taxed at 15% in the fund.

These contributions can then be withdrawn, along with associated deemed earnings, for a first home deposit, **from 1 July 2018 onwards**. Concessional contributions and earnings that are withdrawn will be taxed at the taxpayer's marginal rate less a 30% offset. When non-concessional contributions ('NCCs') are withdrawn, they will not be taxed.

For more details, you are welcome to contact our office.