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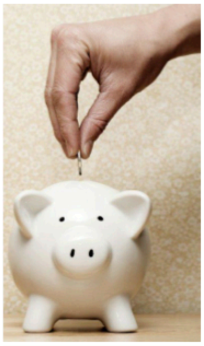

The financial news your business needs.

BUSINESS Bulletin

Election Wash-up Edition

The Coalition's victory in the September 7 Federal Election will result in a number of tax changes. In this special edition of the Business Bulletin, we look at how the changes may impact your business. It's worth noting however that these changes must first pass through Parliament, including the Senate. Without a majority in the Senate, there is a chance that some of the Government's more contentious reforms may be blocked, watered down or their start date deferred.

Pro-Business Measures

In good news for business, the new Government has pledged to make the following changes:

Company Tax Cut

The new Government will cut the company tax rate by 1.5% which will reduce the rate from 30% to 28.5%. The start date for this measure is 1 July 2015. While this is certainly welcomed by the business sector, the effect of the reduction may be limited for two reasons.

Firstly, it only applies to company structures. Therefore, the many businesses who are not incorporated (i.e. those who operate through partnership, sole trader or trust structures) will miss out on the tax cut altogether (including more than 70% of small businesses).

Furthermore, for the many small business owners that strip the company profits relatively quickly, you will get next to no benefit from any corporate tax cut. This is because under the dividend imputation rules, the imputation credit (the credit that the dividend recipient gets for the tax paid on

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Reminder Dates

September 21
Due date for August monthly Activity Statements

October 21
Due date for September monthly Activity Statements

October 28
Due date for Superannuation Guarantee contributions
(payable at 9.25% for the first time)

October 28
Due date for quarterly Activity Statements
(if lodging by paper)

November 11
Due date for quarterly Activity Statements
(if lodging electronically)

the dividend by the company) will also be reduced to 28.5%. So instead of getting a 30% credit when paying tax on the dividend as per the current rules, when you as the business owner repatriate the profits out of the company and pay tax at an individual level, the benefit of the 1.5% corporate tax reduction is lost. When company tax cuts are made without commensurate individual tax cuts, there is only a benefit when the profits remain in the company – which is not normally the case for many small business owners. However, when you are leaving the profits in the company (for example, you may be expanding and therefore pumping the profits back into the business) there is definitely a benefit from a company tax reduction. If you were to leave $300 000 of profits in your company for instance, the 1.5% tax cut will deliver a $4 500 benefit as compared to the current 30% rate.

Carbon Tax Abolition

One of the main promises made by the new Government was the abolition of the Carbon tax.

Although the Carbon tax is only paid by Australia's largest polluters (less than 500 businesses) these big businesses then pass on this tax impost through the economy which may result in price increases down the line (especially in relation to electricity). From a business standpoint, the abolition of the Carbon tax means that there will be far less flow-through pricing impact on small business. Indeed, in a survey of more than 1 700 small businesses conducted by the Australian Chamber of Commerce and Industry which was released on 9 May 2013, the abolition of the Carbon tax was nominated as one of the top three wishes of survey participants. Of course it remains to be seen whether these 500 big polluters pass on the savings that come about through the abolition of the tax.

Business Tip—FBT Changes Aborted!
Good News for Car Buyers

The Labor Party's defeat means that its controversial FBT change announced earlier in the year to abolish the statutory formula method for working out the FBT on car fringe benefits will not proceed. Employers can therefore continue to use the statutory formula method for calculating FBT on salary packaged and employer-provided vehicles. The Coalition announced during the campaign that it would not proceed with the Labor Party's proposal.

The retention of the statutory formula method will come as a relief for the many employees who have a vehicle as part of their salary package and use the vehicle largely for private purposes. Had the Labor Party's reform gone ahead, it would have resulted in significantly increased FBT in the many cases where the employee uses the vehicle largely for private purposes.

Because of the Labor Party's 16 July 2013 transitional rule start date for this proposal, it was already having the following impacts despite not yet being passed into law via legislation:

- New arrangements between employees and employers were being put on hold pending the outcome of the Election
- Employers and employees who had pre 16 July arrangements were reluctant to make material variations such as vehicle upgrades or refinancing, and
- According to media reports, salary packaging providers and car dealers were laying off staff, as vehicle orders had dramatically dried up after 16 July.

The defeat of the Labor Party now means that normal business in this area can resume. As the Labor Party's proposal was never actually law (it was just a proposal that would have retrospectively been applied to arrangements entered into after 16 July had the Labor Party been re-elected) the new Government does not need to pass legislation to abolish it. Therefore, with the defeat of the Labor Government, certainty has now been provided to the industry and to affected employers and employees – you don't need to wait for any disenabling legislation to pass Parliament to enter into new arrangements or alter existing arrangements.

Unfavourable Measures

The new Government intends to abolish the following law which may have a negative impact on your business:

Asset Write-Offs

In what is a blow for small business cashflow, the Government intends to abolish the following small business write-offs (which apply if your turnover is less than $2 million):

- **$6 500 Instant Asset Write-Off**
  This will be reduced to its old rate of $1 000. Assets costing more than $1 000 will be depreciated at 15% in the year of purchase, and 30% per year in subsequent years.

- **$5 000 Vehicle Write-Off**
  This write-off, which allows small business to claim a bonus $5 000 write-off in the year a vehicle is purchased, will also be abolished. Vehicles will therefore be depreciated as per normal rules (i.e. 15% in the year of purchase, and 30% of the remaining value per year in subsequent years).

To be clear, even after these changes are implemented, you will still be able to depreciate the full value of these assets (subject to the car depreciation limit), it's just that they will be written off over a longer period, thus impacting cashflow.

In its 28 August 2013 Economic Statement, the new Government was vague on the start date for the abolition of these measures, which will hopefully be clarified as soon as possible. However, as the start date is very unlikely to be retrospective, if you were already contemplating low cost equipment or vehicle purchases, you may wish to bring forward your purchase before an abolition date is announced.

Loss Carry Back

The recently-introduced loss carry-back regime will be scrapped. Loss carry-back provides tax relief for companies by allowing them to carry

back their tax losses and receive a refund against tax previously paid. Refunds of up to $300 000 are available, and are currently being claimed by companies that made a tax loss in 2012/2013.

Again, the new Government is vague on the implementation date of this measure. With many 2012/2013 business tax returns not due until the first half of 2014, some industry experts are urging businesses that are eligible for loss carry-back to urgently lodge their tax returns before an abolition date is announced. However, the abolition date is almost certain to be based on a financial year basis (e.g. available for all eligible businesses in 2012/2013 but not for 2013/2014) rather than based on a date that the tax return was lodged. That said, if you were contemplating not applying your 2012/2013 loss on your current tax return (and rather carrying it back next year or carrying it forward next year on your 2013/2014 return) you may wish to reconsider this strategy as carry-back may be abolished for 2013/2014 returns.

Irrespective of the abolition date, if you made a loss in 2012/2013, get in quick and lodge your company tax return. The sooner your company lodges its return, the sooner it can get its hands on the carry-back refund it may be due.