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March 2020

Tax & Superannuation Update

South Australian Land Tax, New Measures from 30 June 2020

The South Australian government is making changes to land tax (a broad based annual tax applied to the unimproved/land value of property held in SA – but excluding a person’s principal residence, farming land and land held by charities and religious groups) which will apply from 30 June 2020.

Although it may decrease the land tax for some (through an increase in the general threshold to \$450,000 and a gradual decrease in the rate) it will significantly affect trusts and related companies.

Trusts that own property valued above \$25,000 will be subject to a 0.5% surcharge, ie. the \$450,000 threshold does not apply to trusts. However, the 0.5% surcharge will not apply to:

- discretionary trusts which owned land in SA on 16 October 2019 that nominate an adult individual as a “designated beneficiary”. Such property’s value is aggregated with any other land held by the individual and they get a credit for the land tax paid by the trust;

- fixed and unit trusts that notify the Commissioner of the holders of the fixed interests and units (then the beneficiary’s interest in the trust land will be aggregated with any other interests in land that they hold); and
- certain excluded trusts, including complying superannuation funds, charities, deceased estates, constructive and resulting trusts.

Additionally, trustees will also be required to notify the Commissioner:

- by 31 July 2020 of the existence of land held in that trust as at 30 June 2020 (if they have not already done so);
- within 1 month of the trust acquiring or disposing of SA land; and
- within 1 month of a change of beneficial ownership or a change in unit holdings in a fixed or unit trust.

Related corporations will cease to be separately assessed and will instead have the value of their land aggregated and taxed as if a single taxpayer owned all the land. However, an exemption from aggregation will apply where land is held for the purpose of being developed as a residential

development of more than 10 allotments or lots.

Developers of affordable housing will have a 12-month land tax concession, with ex-gratia relief to prevent such land being aggregated with other landholdings (provided certain conditions are met).

Where trust land constitutes the principal place of residence for all the notified beneficiaries/unit holders of a fixed or unit trust or the designated beneficiary of a discretionary trust the principal place of residence land tax exemption can apply.

Trustees of discretionary trusts owning property before 16 October 2019 will need to consider:

- whether they can/wish to nominate a designated beneficiary and who that might be (could SA subsequently introduce a foreign land holder surcharge as occurs in many other jurisdictions); and
- if nominating a designated beneficiary will be cost-effective.

Fixed trusts and unit trusts need to review whether they should notify RevenueSA of the holders of fixed interests and/or units.

Investors owning property through two or more separate companies need to determine whether those companies will be related corporations.

Investors adversely affected by the changes should consider if they are eligible to apply for transitional

relief (increase in land tax of more than \$2,500 but not applicable to the higher trust rates) and/or whether it would be worthwhile restructuring.

Going forward, future property purchases may need to consider the effect of these new rules. Depending on the value of a property(ies) and existing property ownerships, there may be a real disincentive of property acquisitions being made in discretionary trusts after 16th October 2019.



Maximising Superannuation Deductions

A reminder that if you have:

- a total superannuation balance below \$500,000 as at 30 June; and
- not utilised your entire annual concessional contributions cap (\$25,000) for the year

then you can 'carry forward' your unused annual concessional superannuation contributions deduction limit amount on a rolling 5-year basis.

The carry forward rule applies in relation to working out the

concessional contributions cap for the 2019/20 financial year and later financial years, so only unused cap amounts from the 2018/19 financial year onwards can be carried forward.

In the first year of operation (2019/20), only one year of carry forward applies; in the second year (2020/21), two years of carry forward will apply; and so on until the full five-year carry forward is reached from 2023/24 onwards.

This could be very useful if you are selling an asset and likely to make a taxable capital gain, a higher deductible personal contribution may assist in reducing your tax liability in the year of sale. Similarly, people who are close to being able to access their super may be willing to forgo personal cash flow and reduce tax on the basis they may soon access their super.

However, in some cases, an additional 15% tax can apply (30% total) to concessional contributions made to super where a person's income (adding back any rental or financial loss, any personal concessional or salary sacrificed contributions and reportable fringe benefits) exceed certain thresholds (\$250,000 in 2018/19).

Advantages of Reviewing Your Business Figures

Closer to financial year end smart business owners will take the time to stop and assess how their business is travelling. How do the figures compare with previous

years? Are there any line items in the accounts that need closer attention?

For example, has any source of income or expenses greatly increased or decreased? Have wages or cost of goods sold increased and reduced your profitability? How are the levels of cash, debtors and creditors looking? Are your tax debts or long-term liabilities increasing?

Picking up on trends in your numbers, good or bad, can help you put plans in place and to guide your business in the right direction.



Costs to Claim When Running a Business from Home and Capital Gains Tax

A home-based business is one where your home is also your principal place of business, that is, you run the business at or from home, and have a room or space set aside exclusively for business activities.

Tax-deductible costs for a home-based business include:

- Utility expenses of the rooms you use for business (eg. the

business portion of electricity, water and gas bills):

- Work equipment such as computers and printers. Note the \$30,000 small business instant asset write-off which applies up to 30 June 2020;
- Cleaning and repairs for work equipment;
- Phone and internet costs to the extent they are used for work; and
- Occupancy expenses such as rent, insurance and mortgage interest, where you have apportioned the business and private spaces in the house (eg. as a proportion of floor area).

In contrast where you choose to work from home (eg. you already have an office) you cannot claim the occupancy expenses.

It is worth remembering that if you have used any part of your home for business purposes the general Capital Gains Tax (“CGT”) exemption is affected. For example, if you owned your home for 10 years, but only used one-fifth of it for business in the last two years, then you only need to pay tax on one-fifth of the capital gain in the last two years.

However, you may be able to apply one or more of the small business CGT concessions to reduce your capital gain (possibly to nil) unless the main use of the house was to produce rent.

GST at Settlement

From 1 July 2018, most purchasers will be required to pay a withholding amount to the ATO from the contract price at the date of settlement in relation to:

- new residential premises (new residential premises other than those created through substantial renovation, house and land, off-the-plan, display homes and new apartments)
- land that could be used to build new residential property ('potential residential land').

The supplier is the entity that is required to report the property transaction to the ATO on their BAS.

When the contract between the supplier and purchaser is signed, the supplier must notify the purchaser in writing (supplier notification) before settlement of the property whether the purchaser has a withholding obligation.

Just a reminder that the due date for lodgement of returns for the year ended 30 June 2019 is 15 May 2020.

Please note that the information contained in this newsletter is general in nature and should not be considered as advice.

Should you wish to discuss these or any other accounting or taxation issues please contact our office.