



Change in small business tax rates

On 19 May 2017, the tax laws were amended to change the tax rate applicable to small businesses. This amendment also altered the threshold for determining whether a business is considered a small business for taxation purposes. These amendments are effective for income tax years commencing on or after 1 July 2016.

In this alert, the term “small business” refers to companies that are either Small Business Entities or Base Rate Entities for income tax purposes.

The small business company thresholds and tax rates for the applicable years are as follows:

| Income year | Aggregated turnover is less than | Small Business Company tax rate |
|-------------|----------------------------------|---------------------------------|
| 2016/17 | \$10m | 27.50% |
| 2017/18 | \$25m | 27.50% |
| 2018/19 | \$50m | 27.50% |
| 2019/20 | \$50m | 27.50% |
| 2020/21 | \$50m | 27.50% |
| 2021/22 | \$50m | 27.50% |
| 2022/23 | \$50m | 27.50% |
| 2023/24 | \$50m | 27.50% |
| 2024/25 | \$50m | 27% |
| 2025/26 | \$50m | 26% |
| 2026/27 | \$50m | 25% |

Measuring Deferred Tax balances

Measuring deferred tax assets and liabilities requires an entity to make a determination as to when the asset will be realised or liability settled, and apply the tax rate that is expected to apply. Consider the following example:

An entity has \$10M of unused tax losses as at 30 June 2017. The entity expects to utilise these as follows:

| Year ending | Tax loss to be utilised |
|-------------|-------------------------|
| 2018 | \$5m |
| 2019 | \$4m |
| 2020 | \$1m |



The company has an aggregated turnover in 2017 of \$40M and expects that this will remain consistent for the foreseeable future.

Once management have determined the period in which the losses will be utilised and forecast their expected aggregated turnover, the entity should determine the tax rate applicable in the relevant years. The entity does not expect to meet the small business threshold in 2018, but due to the change to the threshold in 2019, they expect to meet the threshold from 2019 onwards. Therefore the tax rates applicable to each year are as follows:

| Year ending | Estimated aggregated turnover | Base rate threshold | Eligible for lower tax rate? | Tax rate applicable |
|-------------|-------------------------------|---------------------|------------------------------|---------------------|
| 2018 | \$40m | \$25m | No | 30% |
| 2019 | \$40m | \$50m | Yes | 27.5% |
| 2020 | \$40m | \$50m | Yes | 27.5% |

The entity should then calculate the deferred tax asset associated with the tax losses using the rate that will apply when the tax losses are utilised:

| Year ending | Tax loss to be utilised | Applicable tax rate | Deferred Tax |
|-------------|-------------------------|---------------------|--------------|
| 2018 | \$5m | 30% | \$1,500,000 |
| 2019 | \$4m | 27.5% | \$1,100,000 |
| 2020 | \$1m | 27.5% | \$275,000 |

Therefore as at 30 June 2017, the deferred tax asset is calculated to be \$2,875,000.

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