



# Year end tax planning 2016 – personal taxation

## Important in 2015/16

### Temporary Budget Deficit Levy

In addition to the current base Medicare Levy, individuals earning over \$180,000 remain subject to the additional 2% Temporary Budget Deficit Levy (which shall also be in place for the 2017 income year). Accordingly, the top marginal tax rate remains at effectively 49%.

### Medical expenses tax offset

To be eligible for a 20% tax offset, eligible net medical expenses must exceed the minimum threshold of \$2,218 pa (the offset is calculated as 20% of the excess over \$2,218). However, for singles earning more than \$90,000 or couples earning more than \$180,000 (plus \$1,500 for each dependant child after the first child) the net medical expenses must exceed \$5,233 and the offset is at a rate of 10% on the out of pocket expenses in excess of \$5,233.

For the 2016 income year, the net medical expense tax offset can only be claimed in respect of medical expenses relating to:

- disability aids; or
- attendant care; or
- aged care.

### Zone tax offset

From 1 July 2015 the zone tax offset will be limited to those taxpayers whose usual place of residence is within the designated zones. The zone tax offset is a concessional tax offset available to individuals against their income tax liability in recognition of the isolation, extreme climate and high cost of living associated with living in designated zones.

The changes made to the zone tax offset will remove “fly-in-fly-out” and “drive-in-drive-out” employees, whose usual place of residence is located outside of the zone, from being eligible to claim the zone tax offset for the 2016 income year and later income years.

### Claiming travel allowance deductions

We are continuing to observe an audit focus by the ATO on travel allowance expenses being claimed by individual taxpayers. There are a number key eligibility points to be aware of if you are intending on using the exception for retaining substantiation for these claims:

- you must be receiving a bona fide travel allowance from your employer;
- you must be working away from home (on overnight stays) in the course of performing employment duties;
- you must calculate the claim correctly for your salary level and location of work; and
- you must be able to show that you are incurring travel expenses.

As audit risk is high with these claims, we recommend that you seek advice in relation to your eligibility. Note that the way that your employer provides and reports the allowance can impact on your risks in this regard.

## **Medicare Levy Surcharge (MLS) and Private Health Insurance Rebate (PHIR)**

The thresholds for the imposition of the MLS (if not covered by private hospital insurance) are broadly as follows:

- singles (no dependants) - \$90,000 pa; and
- families - \$180,000 pa (plus \$1,500 for each dependant child after the first).

Note that there are a number of income amounts such as reportable fringe benefits, reportable superannuation contributions and investment losses counted in testing against these thresholds.

We further note that there is a “tiered” system for calculating MLS in the 2016 income year. The rate of MLS will be between 1% and 1.5% depending on the extent to which income exceeds the above thresholds.

In addition, the PHIR is also means tested in the 2016 income year under a “tiered” system. The rate of rebate will be between 0% and 30% depending on income levels. This means some taxpayers who have claimed a full 30% rebate from their health insurance provider on their premiums will have an additional liability on lodgement of their return.

## **ATO recovery of Higher Education Loan Programme and Trade Support Loan debt**

The Higher Education Loan Programme (HELP) and Trade Support Loan (TSL) repayment rules to debtors who reside overseas have been extended by assessing their repayment obligations on their worldwide income. Repayment obligations will commence from 1 July 2017.

From 1 January 2016, HELP and TSL debtors who are going overseas for more than 6 months will be required to register with the ATO. Debtors already living overseas will have until 1 July 2017 to register.

## **Areas of ATO focus in 2016**

The ATO’s “Building Confidence” publication reminds individuals of its extensive data matching capabilities, based on information it receives from various sources including banks, share registries, employers, government agencies, and via its network of global information exchange agreements.

In terms of focus areas for compliance activities, the ATO continues to closely monitor:

- claims for work-related expenses that are unusually high relative to others across comparable industries and occupations;
- excessive rental property expenses;
- non-commercial rental income received for holiday homes;
- interest deductions claimed for the private proportion of loans; and
- people who have registered for GST but are not actively carrying on a business.

## **Planning considerations**

### **Capital gains tax**

Realised capital losses are able to be offset against realised capital gains to reduce the net capital gain and therefore tax payable.

Caution – the ATO has a Public Ruling relating to “wash sales”. The Ruling considers that the ATO can apply Part IVA anti-avoidance provisions to cancel offsets and apply penalties.

### **Donations**

Donations or gifts of \$2 or more to approved organisations and charities are tax deductible. Ensure you retain receipts for donations made.

### **Derivation of income**

It is worth considering whether assessable income can be deferred to the 2017 income year. This requires careful consideration and should be discussed with your accountant.

## **Maximising allowable deductions**

Expenses that are incurred before year end can reduce taxable income. Consider up-and-coming liabilities and the value in incurring them before year end.

If you have a rental property, consider whether you are maximising claims for capital allowance and capital works deduction on the property. We can assist you with a report from a quantity survey or suitably qualified specialist to maximise your entitlements.

Pay income protection insurance premiums before year end. We can assist you with obtaining quotes from insurance companies that are appropriate for your circumstances.

### **Prepayments**

In limited circumstances, an immediate deduction is available for non-business prepaid expenditure (e.g. interest on a loan relating to a rental property or on other passive investments such as a share portfolio).

### **Motor vehicle expenses**

For the 2015-16 income year and later income years there are now only two methods which can be used to claim a deduction for motor vehicle expenses. These are:

- the cents per km method (for up to 5,000 business kilometres travelled); and
- the log book method (log book kept over 12 weeks and updated every five years).

Further, from 1 July 2015 there is a single cents per kilometre rate of deduction determined by the Commissioner. For the 2015-16 income year the single rate of deduction determined by the Commissioner is 66 cents per kilometre.

Detailed records assist in maximising deductions.

### Salary sacrifice

To be effective as a strategy for you, the benefits received must be taxed at a lower rate than your salary under the Fringe Benefits Tax (FBT) rules.

From 1 April 2016, the following changes to FBT concessions on salary packaged entertainment benefits apply:

- introducing a grossed-up cap of \$5,000 for salary sacrificed meal entertainment expenses and entertainment facility leasing expenses for certain employees of not for profit organisations; and
- removal of the reporting exclusion in relation to salary packaged entertainment benefits.

Due to the varying calculations for different benefits under the FBT rules, we are happy to discuss whether a salary sacrifice arrangement is beneficial for you.

### Low income earners

The tax-free threshold of \$18,200, together with the low income tax offset, means that some low income earners will not need to lodge income tax returns for the 2016 income year.

### Salary sacrifice bonus into superannuation

You may be able to optimise your tax position by salary sacrificing any end of year bonus into super. There are important considerations that need to be addressed in this regard to ensure it is tax effective and to ensure contribution caps are not breached.

### Superannuation – income

Individuals aged over 60 are generally not taxed on any payments from a superannuation fund. Individuals aged between 55 and 60 will generally be taxed concessional.

### Superannuation - non-concessional contributions

Non-concessional contributions can be made up to \$180,000 p.a. or a total of \$540,000 on a bring forward basis over a 3-year period (provided that the bring forward rule wasn't triggered in either 2013/14 or 2014/15).

### Superannuation – rebate

A rebate of up to \$540 is available for superannuation contributions made during the 2016 year for your spouse where your spouse's income is less than \$10,800 pa (this rebate reduces for income amounts up to \$13,800 pa).

### Superannuation – personal deductions

We recommend you check that the total of your personal contributions (in respect of which you intend to claim a tax deduction) and any employer contributions during the income year do not exceed \$30,000 for individuals under 49 years of age on 30 June 2015 or \$35,000 for all other individuals. Concessional contributions above these caps are assessed to the individual at their marginal tax rate, and also incur an interest charge from the ATO.

For a personal superannuation contribution to be deductible in 2016:

- you must be under 75;
- the amount you earn as an employee must be less than 10% of your combined assessable income, reportable fringe benefits and reportable superannuation contributions;
- contributions must be made by 30 June 2016; and
- you must notify the trustee of your fund in writing of your intention to claim a deduction.

### Superannuation – government co-contribution

The maximum co-contribution amount that you can receive is \$500, based on an after-tax contribution of \$1,000 (i.e. for every \$1 contribution made, the government contributes \$0.50). This is reduced by 3.33 cents for each \$1 of income over \$35,454 pa up to \$50,454 pa. As there are also other qualifying criteria, you should therefore contact your accountant or financial advisor if you wish to access this benefit in 2016.

### Transition to retirement income streams

If you are 55 or older at 30 June 2016, you may be eligible to commence a "Transition to Retirement" pension. Benefits may include:

- receiving pension income while still working;
- ability to salary sacrifice to superannuation to access lower tax rates; and
- concessional tax treatment within your super fund.

### Have you been wondering whether a self managed superannuation fund (SMSF) is suitable for you?

Now is a good time to seek specific advice in relation to this question, as it may be appropriate to establish a SMSF in conjunction with other tax planning opportunities, to maximise the benefit of the SMSF in your circumstances.


Please call your local Crowe Horwath advisor to discuss any of these planning issues or to arrange completion of your tax return.

## Talk to one of our advisors

Please contact your local Crowe Horwath advisor to find out how we can assist you.

Connect with us:

 @CroweHorwath\_AU

 Crowe Horwath Australia

---

## About Crowe Horwath

Crowe Horwath Australasia is the largest provider of practical accounting, audit, tax, business and financial advice to individuals and businesses from a comprehensive network of over 100 offices.

Crowe Horwath is part of a global accounting network that delivers high quality audit, tax and advisory services in over 100 countries. We are the relationship that you can count on – large enough to offer a range of expertise and skills – and small enough to provide the personal touch.

**Tel 1300 856 065**

**[www.crowehorwath.com.au](http://www.crowehorwath.com.au)**

### The relationship you can count on

This fact sheet provides general information only, current at the time of production. Any advice in it has been prepared without taking into account your personal circumstances. You should seek professional advice before acting on any material.

Crowe Horwath (Aust) Pty Ltd has exercised reasonable care in preparing this content but accepts no liability, under any theory of liability, including but not limited to in tort, in contract, under statute or in equity, for any loss sustained by any person as a result of relying on any advice contained herein. Crowe Horwath (Aust) Pty Ltd recommends that you seek professional advice tailored to your needs before making any decisions in relation to this material.

All information, opinions, conclusions, forecasts or recommendations are current at the time of compilation but are subject to change without notice Crowe Horwath (Aust) Pty Ltd assumes no obligation to update this content after it has been issued.

Crowe Horwath (Aust) Pty Ltd is a member of Crowe Horwath International, a Swiss verein. Each member firm of Crowe Horwath is a separate and independent legal entity. Crowe Horwath (Aust) Pty Ltd and its affiliates are not responsible or liable for any acts or omissions of Crowe Horwath or any other member of Crowe Horwath and specifically disclaim any and all responsibility or liability for acts or omissions of Crowe Horwath or any other Crowe Horwath member.

Crowe Horwath (Aust) Pty Ltd ABN 84 006 466 351. Date: March 2016.