RUNDLES

CHARTERED ACCOUNTANTS

Spring 2021

It's September and spring is here, providing a welcome lift in spirits. After some spectacular performances by our athletes at the recent Tokyo Olympics and Paralympics, hopefully you are inspired to achieve some personal goals of your own.

August provided mixed economic news, with central banks, business and consumers remaining cautious. In a widely-reported speech, US Federal Reserve chair, Jerome Powell said there remained "much ground to cover" before he would consider lifting interest rates, sending stocks higher and bond yields lower.

In Australia, shares and shareholders were boosted by a positive company reporting season. According to CommSec, of the ASX200 companies that have reported so far, 84% reported a profit in the year to June, 73% lifted profits and dividends were up 70% to $34 billion. One of the COVID "winners" is the construction sector. While the value of construction rose 0.4% overall in the year to June, the value of residential building was up 8.9% and renovations rose 24.5%, the strongest in 21 years. One of the COVID "losers", retail trade was down 3.1% in the year to June.

While unemployment fell from 4.9% to 4.6% in July, full-time jobs and hours worked were lower due to the impact of lockdowns. The Westpac-Melbourne Institute index of consumer sentiment fell 4.4% in August while the NAB business confidence index fell 18.5 points in July, the second biggest monthly decline since the GFC. Wages grew 1.7% in the year to June, well below the 3% the Reserve Bank wants before it considers lifting interest rates.

Iron ore prices fell 18% in August, while the Aussie dollar finished the month weaker at US73.2c.

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Although smaller businesses are now enjoying a lower corporate tax rate, their quarterly super bills have gone up, following the latest indexed rise in the Super Guarantee rate.

Here's a roundup of some of the other key developments when it comes to the world of tax.

SME tax rate drops

With business conditions remaining tough, small and medium companies will welcome the lower corporate tax rate applying from 1 July 2021. Businesses with a turnover under $50 million are now only up for tax of 25 per cent.

This reduction was part of legislation passed back in 2018 to gradually reduce the corporate tax rate from 27.5 per cent to 25 per cent.

More small companies are eligible for this lower rate as the turnover threshold to access a range of tax concessions has been lifted from $10 million to $50 million.

Reminder on SG increase

If you are an employer, don't forget the Superannuation Guarantee (SG) rate increased by 0.5 per cent on 1 July 2021, making the annual rate 10 per cent.

When paying SG contributions for the July to September quarter for your employees, check your calculations are based on the new, higher rate to ensure you don't run into problems with the ATO.

The higher SG rate may also increase your Workcover premiums and payroll tax liability.

Tax status of COVID-19 grants

If your business is taking advantage of the financial support provided by state and territory governments during pandemic lockdowns, it's essential to check the strict tax rules covering these grants.

Most of these financial supports have been given a concessional tax status and are classed as non-assessable non-exempt (NANE) income, but only grants paid in the 2020-21 and 2021-22 financial years currently qualify.

For the grant to qualify for NANE income tax status, your business's aggregated turnover for the current year must be under $50 million. You are also required to be carrying on a business in the current financial year and the grant program must be declared an eligible grant through a legislative instrument.

Continuation of full expensing and loss carry-back

In more good news, eligible business taxpayers who took advantage of the government's full expensing and loss carry-back measures in the past financial year will be able to use them again this financial year.

The temporary full expensing regime was introduced to help businesses with an aggregate annual turnover of under $5 billion to cope with the financial challenges of the pandemic. Eligible businesses can deduct the full cost of any eligible depreciable assets purchased after 6 October 2020.

Similarly, eligible companies will also be able to carry-back tax losses from the current income year (2021-22) to offset previously taxed profits going as far back as 2018-19 when they lodge their business tax return.

FBT exemption for retraining and reskilling

The ATO is reminding employers that if they provide training or education to employees who are made redundant, or soon to be redundant, the cost is exempt from fringe benefits tax (FBT).

Eligible employers using the exemption are not required to include the retraining in their FBT returns, or in the reportable fringe benefits listed in the employee's Single Touch Payroll reporting or payment summary.

You are, however, required to keep a detailed record of all the training and education provided if you intend claiming this exemption.

Changes to SuperStream

And finally, a reminder that from 1 October 2021, self-managed super funds (SMSFs) will only be able to roll member benefits into and out of their fund using SuperStream. Some electronic release authorities will also need to be processed using SuperStream.

SMSF trustees need to ensure their fund will be ready to meet the new requirements by checking the details recorded with the ATO are up-to-date for both the fund and its members.

Trustees should also check they have provided the ATO with details of the fund's ABN and unique bank account for super payments.

Tax benefits of shares

Australian shares are popular investments with self-funded retirees and anyone who depends on income from their investments, due in part to the favourable tax treatment of franked dividends.

After falling off in the early days of the COVID pandemic, share prices and dividends bounced back strongly in the year to June 2021.

Investors who depend on income from their shares also have more certainty now that the Labor Party has dropped its opposition to cash refunds of excess franking credits, a policy that attracted fierce resistance from retirees at the last federal election.

The hunt for yield

In a low interest rate environment, dividend yields on Australian shares compare favourably with near-zero interest rates on bank term deposits and historically low yields on government bonds.

Over the past 40 years, the dividend yield on Australian shares has averaged just over four per cent and many stocks pay more, (dividend yield is the sum of dividends over the past 12 months divided by the current share price).[i] In fact, dividends account for roughly half the total return from Australian shares over the past 20 years.[ii]

These dividend yields are even more attractive when the tax benefits of franking credits are included, especially for investors in retirement phase.

What are franking credits?

Franking credits represent tax a company has already paid in Australia on any profits it distributes to shareholders by way of dividends. The company tax rate in Australia is currently 30 per cent, or 25 per cent for companies with turnover of less than $50 million.

Shareholders can then use these franking credits, also known as imputation credits, to offset their tax liability on other income, including salary, at the end of the financial year. People who pay no tax, such as investors in retirement phase, can claim a full tax refund from the ATO.

If your marginal tax rate is less than the company tax rate of 30 per cent, you may be eligible to receive a refund of the difference between the franking credit and your tax payable.

This is one reason SMSFs are so attracted to shares in Australian companies that pay fully franked dividends. Super funds pay a top income tax rate of 15% and no tax on the earnings or income of investments supporting a retirement pension.

Am I eligible for a tax refund?

You may be eligible for a refund of excess franking credits if all the following apply:

- You receive franked dividends on or after 1 July 2000 either directly or through a trust or partnership.
- Your basic tax liability is less than your franking credits, after taking into account any other tax offsets you are entitled to.
- You meet the ATO's anti-avoidance rules, designed to ensure everyone pays their fair share of tax.

You will also need to keep dividend statements from companies that paid franked dividends to support your claims.

So how does franking work?

Franking credits have different impacts depending on your marginal tax rate and whether your share investments are held inside or outside super.

Say you own shares in a company which pays a fully franked dividend of $700. Your dividend statement says there is a franking credit of $300, which represents tax the company has already paid. This means the dividend before company tax was deducted would have been $1,000 ($700 + $300).

In your annual tax return, you must declare the full $1,000 in your taxable income. The after-tax value of the dividend will then depend on your marginal tax rate.

If you hold the shares in an SMSF tax-free pension account, you will receive a total dividend payment of $1,000, $700 dividend plus a full cash refund of the attached franking credits.

If you hold the shares in an SMSF accumulation account (with a 15% tax), you will receive $850, $700 dividend plus a $150 cash refund of franking credits.

If you hold the shares in your own name there will be some tax to pay on your dividend income, but significantly less than you would otherwise have paid without franking credits.

If you would like to discuss the taxation of share dividends and the role they play in your overall investment strategy, please give us a call.

i https://www.marketindex.com.au/statistics

ii https://www.bt.com.au/personal/smsf/manage-your-smsf/investment-insights/the-search-for-dividend-yield-in-a-low-growth-environment.html

To *lease* or *buy* a business asset?

That's the question

With business conditions picking up in Australia, many business owners are thinking about the equipment they will need in order to evolve in the years ahead.

Whether it's a new delivery van or a high-end digital printer, up-to-date equipment and tools are essential for business success.

In the May 2021 Federal Budget, the government announced full write-off of eligible business assets will be available for another year, so the opportunity to tool up is even more attractive.

Issues to consider

Unfortunately, deciding the best way to acquire business assets is not always straightforward as you weigh up whether to buy outright or lease.

With leasing, you are able to use the plant or equipment under the terms of a contract and return it when your lease expires. Whereas buying means you purchase and own the equipment outright. If you have insufficient cash to buy an asset, you can also finance your purchase and repay the lender over time.

For both buying and leasing it's not just the immediate costs and tax benefits you should bear in mind. You need to calculate the total costs, including ongoing maintenance, usage conditions, termination fees and equipment return.

You also need to review whether your business's cash flow is steady and reliable, and allows you to commit to regular lease payments, or is subject to seasonal fluctuations.

Impact on your tax bill

A key factor to consider when it comes to the lease or buy decision is tax, as there can be valuable tax benefits if you buy an asset outright.

At the moment, the government's COVID-19 temporary full expensing provisions provide a significant tax incentive to buy new equipment. These instant write-off incentives allow you to claim the cost of your asset against your business's tax bill in the year of purchase.

For many eligible businesses, these tax incentives could tip the scales towards buying rather than leasing between now and 30 June 2023.

GST and leasing

The rules around claiming GST credits also favour purchasing.

When you lease equipment for your business it's similar to renting, so you can only claim GST credits for your lease payments, not the total cost of the asset. For example, if you purchase equipment valued at $66,000 (including GST) you can claim back $6,000 in GST credits in your next BAS, but only a couple of hundred dollars for each monthly lease payment.

If you purchase a vehicle for business purposes valued at over the annual car limit ($60,733 in 2021-22), the maximum amount of GST credit you can claim is one-eleventh of the limit ($5,521 in 2021-22). If you pay luxury car tax on a vehicle you purchase for your business, you are unable to claim GST on the tax paid.

Leasing is still attractive

Although buying can be sensible for some businesses, if you have insufficient cash to cover the cost of new equipment leasing still offers benefits, especially while interest rates are low.

Leasing also allows you to keep working capital within the business and available for other uses. For example, if you want to acquire an asset worth $120,000 and finance it at 4 per cent interest, your business retains the $120,000 on its balance sheet and still has access to it if required.

What's more, you may be able to invest the $120,000 and achieve a return higher than 4 per cent.

In addition, leasing is often more appropriate for assets that rapidly become obsolete and need regular updating, such as IT equipment.

Leasing new equipment can also make it easier to match regular monthly loan repayments to your business cash flow, rather than having to make a large one-off outlay for the asset.

Making your decision

Whichever way you are leaning – buy or lease – it's important to review your business cash flow, your future growth plans and the current business and economic outlook.

Your personal approach to your business is also a factor to consider. Some owners prefer the certainty of ownership and not having to worry about a lot of fixed costs. For others, it's more important to have access to the latest equipment and to focus on rapidly expanding their operation.

If you would like to discuss whether buying or leasing would be best for your business in the current economic environment, call us today.