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Financial Times

A newsletter for clients of TNR
Issue #129 Spring 2017

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Money-saving tax tips for this financial year

With June 30 done and dusted, now is the time to ensure finances are on track for the upcoming financial year to take full advantage of any tax benefits.

Non deductible debt

Having high levels of non deductible debt – such as a mortgage, car loan or credit card – is a disadvantage as no tax deduction can be claimed on the interest payments.

The best approach is to put all spare funds towards paying down such debt in the shortest time possible, starting with the debt with the highest interest rate.

Deductible debt on the other hand – such as the interest on a loan over an investment property or a share market portfolio – can be claimed as a tax deduction, and should be paid off only after the non deductible debt has been eliminated.

To maximise cash flow and repayments, a useful strategy is to have an interest only loan over all income producing investments, while making principal repayments on the home loan and other non deductible debts.

Care must be taken however when restructuring loans solely to avoid tax, as this can attract the attention of the ATO.

Investment types

Another consideration for those looking at their future tax liability, is the type of investments they hold.

Wherever possible, investors should consider tax advantaged investments, as long as they suit the long-term investment strategy.

No investment should be taken out purely because it receives favourable tax treatment. By the same token, it is important to be aware of the taxation implications of the investment structure.

For instance, selecting an investment that returns discount capital gains or fully franked dividend income, is a better option than choosing an investment that may offer the same return, but doesn't have the same tax advantages.

So for individuals, family trusts and super funds, options such as listed investment company (LIC) dividends are often an attractive, tax-effective option, as they are usually fully franked.

They also come with the benefit of the Capital Gains Tax (CGT) discount which shareholders can access if the company sells investment assets.

Company tax rate changes

Meanwhile, those running a small business in a company structure need to be aware of the company tax rate changes that kicked in for companies carrying on a business after 1 July 2016, and the further changes that apply from 1 July 2017.

The reduced 27.5 percent tax rate applied for the 30 June 2017 year where a company's turnover was less than $10 million, and this threshold increased on 1 July 2017 to $25 million, measured based on the previous year's total income.

This means that a company with a turnover of between $10 million and $25 million would pay tax at 30 percent for the 2017 tax year, and at 27.5 percent for the 2018 year.

Continued on page 2

In this Issue

Time to review loan arrangements 2
Super considerations for this year 3
Tax changes for property investors 4
Potential traps of new super rules 6
Partnerships for prosperity: Asia 6
Crowd funding: open for business 7
Strong start for small IPO market 8

Time to review loan arrangements

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Reviewing the interest rates being paid on both deductible and non deductible debt is a useful exercise for the start of the financial year.

Some very recent and significant changes by both the bank regulators and government have led all the banks to consider their policies and pricing. More recently the major banks have announced a wide range of changes to investment or interest only lending activities.

With an owner occupier mortgage and associated facilities, for example, it is important to ensure that the interest rates are still competitive.

Interest rates change over time, as new offers, changing competition, regulation and newcomers enter the market.

The bank that offered the best rate and loan options three years ago is unlikely to still offer the best rate today.

If your home loan or interest only loan is no longer competitive, getting the right advice can help you understand the current market and what your options may now be.

This can range from restructuring your current arrangements right through to helping you refinance the facilities to another financial institution.

This process can be managed for you and the interest savings generated over the term of the loan may make the investment in time worthwhile.

Of course, the fastest way to decrease the size of your non deductible mortgage is often overlooked.

That is, simply paying more than the minimum amount, more regularly, over a sustained period of time.

Continued from page 1

A key issue is the flow-on effect to franking of dividends, which will apply to any dividends paid by the company during the year.

In the example above, the dividends could only be franked at 27.5 percent.

The company tax cuts were not intended to apply to investment vehicles or corporate beneficiaries but only business entities. However there have been confusing messages from the ATO.

We now have a system where some private companies are taxed at 30 percent (and franking dividends at 30 percent), while others are paying tax at 27.5 percent and franking dividends at the same rate.

Review super arrangements

The new financial year is also a good time to review superannuation, and to ensure super funds, and the underlying investments, are still appropriate for your needs and timeline to retirement.

Undertaking a super fund review is a useful exercise, and people should look at the fees being charged, the type of investments the fund holds, and whether the level of investment risk taken is appropriate for their needs.

It is always worth knowing what other funds are in the market, what they charge in fees and the type of investments they make.

As the superannuation balance grows, it may also be worthwhile to consider whether a self managed superannuation fund is a good option.

It is a good time to start making additional superannuation contributions to build wealth in a tax advantaged environment, remembering that the total deductible contributions are now capped at $25,000 per person.

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With a new financial year well underway, there are a number of important changes to the superannuation system that must now be taken into account, says Andrew Buchan.

Review super changes now to get full benefit

It's a good idea to review the super changes sooner rather than later, in order to make any necessary adjustments or to take advantage of new opportunities. Key areas to consider include:

Concessional contributions

The changes to the superannuation rules from 1 July 2017 mean more people can now make deductible personal super contributions than the previous rules allowed.

Previously, deductible concessional contributions were only allowed if employment income was less than 10 percent of total income. The new rules allow people to make personal deductible contributions regardless of employment status.

When making deductible contributions, it is important to consider all sources of contribution to avoid breaching the annual concessional contribution cap, which has been reduced this financial year.

The cap is now $25,000 a year (previously $30,000 or $35,000 depending on age).

Concessional contributions can include salary sacrifice, the compulsory super guarantee charge (SGC) paid by employers, and personal deductible contributions. Also consider any other entitlements on which SGC may be payable.

Salary sacrifice

Salary sacrificing into super remains a popular strategy for those wishing to maximise their retirement savings. Those with salary sacrifice arrangements in place can combine this strategy with personal deductible contributions to fully utilise the $25,000 cap.

Alternatively, formal salary sacrifice arrangements with employers may no longer be needed, as people can simply make concessional contributions on their own behalf.

Excess transfer balances

The $1.6 million 'transfer balance cap' has now come into effect, limiting the amount that can be transferred into the retirement pension phase of superannuation without being liable for earnings tax.

Therefore, those who have excess balances in their transfer balance account need to commute this to less than $1.6 million.

The commutation required is calculated based on the amount in excess as at 1 July 2017, plus any notional earnings that have accrued up to the time of commutation.

Those who were in excess by less than $100,000 have until 31 December 2017 to make the required commutation to avoid excess transfer balance tax.

There are a number of strategies for couples, including splitting and spouse contributions, which can be used to 'equalise' super benefits in order to better use the transfer balance cap.

Death benefit nominations

The introduction of the $1.6 million transfer balance cap may trigger a review of existing superannuation death benefit nominations.

Those with a retirement phase pension may wish to consider a reversionary death benefit nomination, where the pension will, after death, automatically continue to be paid to the nominated beneficiary.

This has the advantage of allowing the beneficiary 12 months to make any commutation arrangements, before a credit is recorded in their transfer balance account.

Caution is required around reversionary nominations in existing pensions. Some funds allow this without the need to cancel and restart the existing pension, while others may not. In addition, there may be adverse social security consequences to this strategy depending on the super fund in question.

Future changes

In addition to these changes, more changes will take effect from the start of next financial year. They include:

- Future catch-up contributions: From 1 July 2018, the catch-up contribution regime will allow people to accrue unused concessional contributions which are below the new $25,000 cap. Any shortfall can be carried forward to be used in a later financial year.

  For example, if $20,000 is contributed as a concessional contribution in the 2018-19 financial year, the shortfall of $5,000 can be carried forward to be used within the next five years
- Downsizing a home: From 1 July 2018, the government proposes to allow people aged 65 and over to make a non-concessional contribution into superannuation of up to $300,000 from the sale proceeds of their principal home.

  These contributions will be in addition to those currently permitted under existing rules and caps and will be exempt from the existing age test, work test and the $1.6 million superannuation balance test.

A number of conditions apply to both the catch-up regime, and the downsizing contribution, and advice is required to ensure these opportunities are maximised. ■

Recent tax changes affect property investors

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There have been a number of recent tax changes that affect property investors and developers, with other changes still awaiting final legislation.

Generally speaking, these measures are designed to encourage the availability of more affordable housing, to place some brakes on the attractiveness of property as an investment, and to help younger Australians enter the property market. Only time will tell whether these steps are successful. They include:

Investors

Generally speaking, the proposed changes for investors who own property directly are intended to limit the deductions that can be claimed from the investment, potentially 'levelling the field' compared to other forms of investment.

Therefore, the costs associated with travel to inspect rental properties are no longer deductible.

In addition, depreciation claims have been restricted so that investors can no longer claim depreciation for plant and equipment that was purchased by a previous owner of the property.

To try and encourage investment in affordable housing, the government has proposed to increase the CGT discount from 50 percent to 60 percent for investments in qualifying affordable housing.

The investment must be managed by a registered community housing provider and held for a minimum of three years.

Foreign investors

There were several proposed changes that impact foreign property investors.

They include removing the CGT main residence exemption for non-residents and temporary residents, with existing properties grandfathered until 30 June 2019.

The Government has also proposed to amend the CGT withholding tax rate for foreign residents, with the rate increased from 10 percent to 12.5 percent and the exemption threshold reduced from $2 million to $750,000.

This means that there will be a significant number of properties now subject to this withholding.

There is also a new annual foreign investment levy of at least $5,500 for foreign investors who do not occupy or lease their properties for at least six months in the year.

First home buyers

The Government has proposed measures that will assist first home buyers in saving for a deposit by allowing $15,000 per year up to a maximum of $30,000 under a Federal Government "super" saver scheme to be invested tax concessionally in superannuation and the funds can be later drawn for a home deposit.

At the other end of the spectrum, Australians aged 65 or over are able to put up to $300,000 from the sale proceeds of disposal of their primary residence into superannuation to incentivise downsizing as part of retirement.

Property developers

For property developers who are selling new residential property there is now a requirement that they remit the GST to the ATO at the time of settlement rather than delaying this until they lodge the Business Activity Statement for the period, as was allowed in the past.

The Government has also imposed a restriction on the number of foreign buyers in new developments to 50 percent.

Continued from page 8

With only 10 reverse takeovers in the first six months on 2017, it is clear that the recent attractiveness of this listing route has significantly reduced. In contrast, there was a total of 69 backdoor listings in 2016 which highlights the extent of the reduction in the first half of 2017.

The changes to the ASX listing rules, which came into effect in December 2016, have made the reverse takeover route much less attractive.

We would expect this trend to continue for the remainder of the year.

** Emerging, or small cap, companies are defined in this report as those with a market capitalisation of $100 million or less. All data excludes property trusts .*

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The proposed tax changes for family trusts mean their use may need to be reviewed, says Jonathan Philpot.

Family trusts: will they survive?

There has been a lot of talk lately about family trusts, as a result of Labor's announcement it would introduce a new minimum tax rate on distributions.

Trusts are used by families for many reasons including building wealth, protecting their assets, adding to retirement savings, and looking after other family members, especially those who may not be able to look after themselves.

In particular, we have seen an increased interest in family trusts following the government's ongoing changes that limit the amount of money people can save for their retirement through superannuation.

Trusts have a useful role to play as a safe, reliable and tax-effective alternative to the superannuation system and over the last few years we have seen an increase in the number of family trusts as a result of the superannuation changes.

The proposed Labor changes would significantly impact on the use of trusts in this way.

Under the suggested changes, superannuation will become even more important given the now sizeable tax advantages it provides.

Maximising concessional contributions at a younger age will become a much more necessary strategy.

Proposed changes

Labor has proposed introducing a minimum tax rate, of 30 percent, on distributions from a family trust.

Therefore if a distribution is made to someone whose marginal tax rate is already above 30 percent (for example, someone who already earns more than $37,000, or those under 18 years old who receive more than $417 a year from the trust) the higher marginal tax rate will automatically apply.

If the changes are implemented, there is little doubt that the increased tax liability associated with family trusts will mean they are less likely to be used as a vehicle for building wealth.

Of course, the changes depend on whether Labor comes into government, and whether it will actually implement the proposed changes; unfortunately the result is that many people are now left in limbo wondering what their best option will be.

Many people will find other structures are more suitable to their needs if the changes come into effect.

Whether family trusts will continue to be used as the primary structure to build up wealth will now depend on individual tax positions, the potential beneficiaries, ages and whether asset protection is required, and professional advice should be sought. ■

Partnerships for prosperity: doing business in Asia

During the recent annual HLB International Asia Pacific Conference, it was made clear that there were significant opportunities for Australia in the Asia Pacific region. Asia represents an economy that has achieved 25 years of consecutive growth and which provides a safe, low-risk environment to do business.

Australia itself also continues to be an attractive destination for both people and business from all over the world.

As a nation, we appeal to a diverse range of industries, from agribusiness, mining, education and tourism sectors, to specialist service sectors including media and telecommunications, financial, scientific and technical services.

With its triple A credit rating, the Australian economy is estimated to be the 12th largest in the world and is also forecasting the highest economic growth rate to 2020 amongst major advanced economies.

The conference was told that for businesses looking to expand into Asia, as well as for Asian businesses seeking to come to Australia, it is important to have good advice, support and knowledge at hand, to help overcome the undoubted challenges of such moves.

The conference was hosted by the HLB Mann Judd Australasian Association in Melbourne in June this year, attracting 71 delegates from 19 countries.

In addition, an HLB Greater China meeting took place of part of our award-winning Global China Service, which was attended by over 20 delegates from Greater China and China Desks from Australia, Canada, Malaysia, Singapore and the USA.

For more information on HLB Mann Judd's strong international network, visit www.hlb.com.au ■

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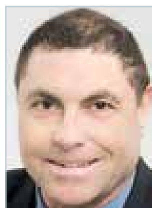
Potential traps: new super rules



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As well as the major superannuation changes outlined by Andrew Buchan on page 3, there are a few areas that have had little commentary, but which need to be taken into account, Bruce Wigan says.

One area of significant importance is to do with superannutation valuation rules, in particular on fund investment values as at 30 June 2017. These rules are of real consequence to self managed superannuation funds (SMSFs). The valuation of fund assets is important if a fund member's balance is close to the $1.6 million transfer cap balance.

Depending on the valuation methodology undertaken, a member may find they are in fact above this threshold level without realising it.

With this in mind, investment valuations will become an area of focus for fund auditors and potentially also the ATO.

For specific asset classes the following valuation requirements exist:

Listed securities: use the closing price on each listed security

Real property: the general rule of thumb is that real property should be revalued every three years and the valuation undertaken by a qualified expert – i.e. a real estate agent or similar

Unlisted securities and unit trusts: when valuing these types of investments the relevant factors to consider are:

- The value of assets in the entity – a potential method being the net asset value reflected for market values of assets
- Current valuation of large assets held in unlisted trusts and companies such as property can be attained to gain more objective and supportive data
- Distribution statements may supply objective information
- The consideration paid on the acquisition of the unlisted unit or securities may be a reasonable market price when there has been a recent purchase.

Investments without a ready market: it is expected that investors were aware of the value of an asset at the time of acquisition, its potential for capital growth, and its capacity to produce income.

It is unlikely that an asset with no known value or potential or income growth would be considered a prudent investment to support a member's retirement goals.

It is acknowledged that there are circumstances where investments fail and there is neither a current value nor a ready market. In these circumstances the asset should be recorded and valued at a nil or nominal amount.

TTR pensions

From 1 July 2017 transition to retirement (TTR) pensions no longer provide exempt pension income relief for superannuation funds paying them.

A TTR pension allows Australians who have reached preservation age (at least the age 55, and now increased to age 57 and older, depending on date of birth) to access their super in the form of a pension without retiring or satisfying an additional condition of release.

As there is no benefit to the superannuation fund that pays such a pension from 1 July 2017, unless the members actually need the pension withdrawal amounts, consideration should be made to cease them.

Salary sacrifice

From 1 July 2017 the maximum concessional contribution that can be made by an individual or their employer to a superannuation fund is $25,000.

As this amount has been reduced from previous years, employees who have salary sacrifice arrangements will need to check them to ensure that no more than $25,000 is paid into a superannuation fund as a concessional contribution.

Excess contribution over and above this amount will incur excess contributions tax. ■

Readership survey: thank you!

Thank you to all our readers who took part in the survey in the last issue of the Financial Times. Your feedback helps us ensure the newsletter remains useful and relevant.

Of particular relevance is the information that the majority of readers are most interested in stories on personal finance, superannuation and personal tax, with over 90 percent of readers rating each these areas as 'very interesting' or 'quite interesting'.

Trends affecting business (84 percent), and business tax issues (72 percent) also rated highly. We will ensure we continue to run stories on these topics, as well as taking into account the suggestions on other topics that would be of interest.

We are delighted to hear that 82 percent of readers consider the Financial Times to be an important and useful part of our services, and 84 percent rate the newsletter as either 'excellent' or "'very good'.

Congratulations to Leigh Robinson from West Australia, who has won the draw for those who responded to the survey. Leigh wins a case of award-winning wine.

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Legislation comes into effect at the end of September that allows small to medium sized companies (SMEs) to tap into a new stream of crowd sourced funding, explains Kirstin Stewart.

Crowd funding: open for business

New rules mean that investors will be able to buy a stake in an SME and get equity in return through Crowd Sourced Funding (CSF).

This is an exciting new world of funding but there are detailed criteria which have to be met before a company can be ruled eligible for CSF offers, and businesses could even make it harder for themselves to participate if they take the wrong steps in the rush to prepare.

While the government has announced its intention of extending the legislation to include proprietary companies, the legislation as it currently stands only allows public unlisted companies to make a CSF offer.

Therefore to capitalise on equity crowd sourced funding, proprietary companies will need to convert to unlisted public status and there are exemptions to minimise compliance costs normally associated with public unlisted companies.

Tips for companies considering accessing an equity crowd funding approach include:

- Under the new legislation, companies that incorporate or convert to an unlisted public company after 29 September 2017 will not have to comply with certain reporting, audit and AGM obligations that usually apply to unlisted public companies for up to five years, which will reduce compliance
- A CSF offer can only be funded through a licenced platform that is registered with ASIC as holding an AFS licence with authorisation to provide a CSF service. Platforms such as 'Go Fund Me' and 'Kick Starter' may be the most well-known but they are currently not licenced platforms to raise crowd funding in return for equity
- Companies should not advertise or promote a CSF offer until the new legislation comes into effect and they have registered the offer with a licensed funding platform provider
- To be eligible to make a CSF offer a company's revenue must be less than $25 million. In addition, the value of its consolidated gross assets (and any related parties) must also be less than $25 million at the time of determining eligibility
- There is a $5 million cap on any equity raised in a 12-month period, as well as a $10,000 cap on the amount a retail investor can invest in that same company in a 12-month period.

It is a positive step to see Australia joining other advanced economies, including China, United States, Canada and New Zealand, which have had equity crowd sourced funding legislation in place for a few years.

Previously, companies wanting to expand their operations with externally sourced funding in exchange for equity required a detailed prospectus and had to be listed on the Australian Stock Exchange (ASX) through an Initial Public Offering (IPO).

The change to the crowd sourced funding rules will not only give SMEs more options when it comes to raising capital, it will also make it easier for them to access funds for a greater variety of investors.

Types of crowd funding

- Rewards-based crowd funding: a reward is contributed in exchange for something (usually the item being produced)
- Donation-based crowd funding: a donation is given with no expectation of something in return
- Debt crowd funding: a loan is made with the expectation of repayment
- Equity crowd funding: usually for larger amounts contributed in return for equity (the changes to legislation relate to Equity Crowd Sourced Funding only).

Strong start for small cap IPO market

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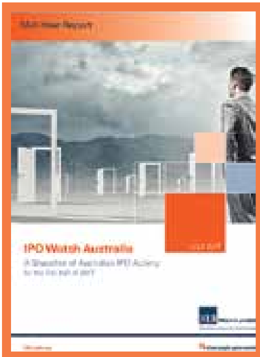
The 2017 IPO market in Australia had a strong first six months, and the small cap* sector in particular made an impressive showing, according to the inaugural HLB Mann Judd IPO Watch mid-year update.

There were 57 listings between 1 January and 30 June 2017, compared to 34 listings during the same six month period in 2016.

This is a strong performance for the first half of 2017, in what is historically a quieter period for new listings.



It sets the scene for a solid 2017 in terms of IPO numbers, as we would anticipate a higher number of listings in the second half of the year compared to the first half.

Our analysis also reveals that the small cap sector has had a particularly good start to the year, with 49 (i.e. 86 percent) of new companies having a market capitalisation of less than $100 million. Indeed all listings during the first quarter of the year were small cap companies.

As a result, there has been a reduction in the total amounts raised for this six month period compared to last year, at $1.9 billion (2016: $2.5 billion).

One striking feature so far this year is the absence of very large listings.

This time last year, we had seen two companies list with a market capitalisation of around $1 billion and 11 companies list with a market cap over $100 million. So far in 2017, there has only been one listing with a market cap greater than $500 million, and seven with a market cap between $100 million and $500 million.

The current pipeline of listings for the remainder of 2017 does not show any particularly large listings on the horizon.

As at 30 June, 21 companies have applied to list and junior exploration companies are likely to be a strong contributor, particularly the Materials sector which currently has 10 proposed listings, seeking to raise a total of $75.5 million.

In terms of total funds sought, Investment stocks dominate, with three proposed listings looking to raise a combined total of $362.2 million, or 68 percent of the total.

Backdoor listings

One notable feature of the market is the marked decline in the number of reverse takeovers, or backdoor listings.

Continued on page 4

FINANCIAL REVIEW
CLIENT CHOICE AWARDS 2017
WINNER
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