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"Chartered Tax Advisers"

Welcome to the March 2016 Newsletter

Small Business Restructure Made Easier

On 4 February 2016, the Government introduced into Parliament the Tax Laws Amendment (Small Business Restructure Roll-over) Bill 2016 to enable Australian small businesses to change their legal structure without attracting a capital gains tax (CGT) liability at that time.

This roll-over was announced in the 2015-16 budget as part of its Growing Jobs and Small Business package.

This Bill:

- Provides greater flexibility for small business owners to change the legal structure of their business by allowing them to defer gains or losses that would otherwise be realised when business assets are transferred from one entity to another.
- Provides small businesses with a new roll-over for gains and losses arising from the transfer of active assets that are CGT assets, trading stock, revenue assets and/or depreciating assets between entities as part of a genuine restructure of an ongoing business.
- Applies to transfers that do not result in a change in the ultimate economic ownership of the assets.
- Is in addition to roll-overs currently available where an individual, trustee, or partner in a partnership transfers assets to, or creates assets in, a company in the course of incorporating their business.
- Extends the relief to include transfer of trading stock, revenue assets, and depreciating assets.

These changes are expected to apply to transfers occurring on or after 1 July 2016.

For more information please contact our office for assistance.

New Tax Rates

With effect 2015/16 income year, the corporate tax rate has been reduced from 30% to 28.5% for companies that are small business entities. The tax rate also applies to corporate trusts and public trading trusts that are small business entities

Even though the tax rate is now 28.5% for these entities the franking credits on distributions can still be at 30%.

Small Business Income Tax Offset

From 2015/16 income year, **individuals** who receive business income from a small business entity, other than via a company, are entitled to a discount of a maximum $1,000 a year. The discount provided by way of the "small business income tax offset".

An individual is a small business entity for the income year where either

- The individual is a small business tax entity for the income year,
- Has assessable income for the income year that includes a share of the net income of a small business entity that is not a corporate tax entity.
- The taxable income derived by a sole trader from his or her small business.
- The business income derived by an individual partner of a partnership that is a small business entity.
- The business income received as an individual beneficiary of a trust that is a small business entity.

The offset is at 5% - per the example below.

Pat Train was carrying on a restaurant business as a sole trader. For the 2015/16 income year the business was a small business entity. The business has assessable income of $300,000 and deductions of $230,000 including personal superannuation of $30,000. Pat had other income of $40,000.

Pats net small business income for the year is $100,000. Pats taxable income for the year is $110,000.

The percentage of Pat's taxable income that was "total net small business income" was 90.9% (being $100,000 / $110,000) The basic income tax liability is $28,647. The result of the tax offset formula is $1,302 (being 5% x 90.9% x 28,647) As a result this exceeds $1,000, the small business income tax offset is $1,000.

The effect of the offset is to reduce the income tax payable to $27,647 (excluding Medicare Levy)

Warm Regards, Simon, Ben, Andrea, Luke, Nicola, Kahlia, Kristal, Kristy, Rebecca, Calin and Emily