

Small business entity turnover threshold to be increased to \$10 million



On 3 April 2017, the Government changed the definition of small business from an annual turnover of \$2 million to \$10 million with retrospective effect from 1 July 2016.

From now on, the following small business tax concessions will be available to businesses with an aggregated annual turnover of less than \$10 million.

For the definition of small business and aggregated annual turnover, please refer to page 3 of this newsletter for more details.

- Simplified depreciation rules, including immediate tax deductibility for asset purchases costing less than \$20,000 until 30 June 2017 and then less than \$1,000 from 1 July 2017; and pooling of most other depreciating assets in the general small business pool (30% diminishing value rate and 15% for additions);
- Simplified trading stock rules, giving businesses the option to avoid an end of year stock take if the value of the stock has changed by less than \$5,000.

This concession allows you to estimate the value of your trading stock at the end of the financial year to report in your tax return. You will need to record how you estimated the value of your stock, but you don't need to notify the ATO that you have chosen to use an estimate.

You can choose not to conduct a stock take (and account for changes in the value of your trading stock) if there is a difference of \$5000 or less between:

- the value of your stock at the start of the income year.
 - a reasonable estimate of the value of your stock at the end of the year.
- A simplified method of paying Pay-As-You-Go instalments calculated by the ATO (using the GDP-adjusted option), which removes the risk of under or over estimating PAYG instalments and the resulting penalties that may be applied;

You can choose the GDP-adjusted instalment option in your first quarter of the income year (usually, this is the activity statement or instalment notice due in October). Once chosen, that option applies for the whole of the income year. If you choose this option, you must pay the amount shown at label T7 on your activity statement or instalment notice.

- Immediate deduction for prepaid expenses, where the prepayment covers a period of 12 months or less, that ends in the next income year;

For example, if you pay for an advertisement in the local paper to be run fortnightly for six months, the prepayment rules apply if you pay in March for advertising to appear from 1 April 2017 until 30 September 2017 (the following income year).

- The option to account for GST on a cash basis and pay GST instalments as calculated by the ATO; and
- Other tax concessions available to small business currently, such as the Fringe Benefits Tax concessions (from 1 April 2017, the beginning of the next fringe benefits tax year) and immediate deductibility of professional expenses (legal and accounting advice and government fees and charges to establish entities).

As many small businesses are not companies, the Government will also extend the unincorporated tax discount to unincorporated businesses with an annual turnover of less than \$5 million and increase the discount to 8 per cent from 1 July 2016, up to a maximum value of \$1,000. After the initial increase, the discount will be increased in phases to a final rate of 16 per cent in 2026-27.

An individual is entitled to a tax offset on the tax payable on the portion of their income that is from:

- net small business income from sole trading activities
- a share of net small business income from a partnership or trust less any deductions attributable to your share.

The income tax offset can reduce the tax payable that relates to the individual's small business income by 8% up to \$1,000 each year.

Importantly however, please note that these threshold changes will not affect the eligibility for the small business capital gains tax concessions, which will only remain available for businesses with annual turnover of less than \$2 million or those that satisfy the maximum net asset value test of \$6 million.

As at 6 April 2017, this bill has not received Royal Assent. However, Treasurer Scott Morrison recently held a media conference to say he had received advice from the Australian Tax Office (ATO) that the legislation did not have to be approved by the House of Representatives in order to come into effect. The government advised it would back any changes which were approved by the senate.

The Government is also trying to achieve further reductions, including for big business, as listed in the schedule below:

	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27
Company tax	<\$2m 28.5%	<\$10m 27.5%	<\$25m 27.5%	<\$50m 27.5%	<\$100m 27.5%	<\$250m 27.5%	<\$500m 27.5%	<\$1bn 27.5%	all 27.5%	all 27%	all 26%	all 25%
Unincorporated tax discount (\$1,000 cap)	<\$2m 5%	<\$5m 8%	<\$5m 8%	<\$5m 8%	<\$5m 8%	<\$5m 8%	<\$5m 8%	<\$5m 8%	<\$5m 8%	<\$5m 10%	<\$5m 13%	<\$5m 16%

Please contact Marshall Michael for clarification, or further advice, regarding any of the topics covered in this newsletter.

Are you a small business entity?

You will be a small business entity if you are an individual, partnership, company or trust that:

- is carrying on a business
- has less than \$10 million aggregated turnover.

Aggregated turnover is your annual turnover plus the annual turnovers of any businesses that are connected with you or that are your affiliates.

The aggregation rules help you determine whether you need to include the annual turnover of another business entity (a relevant entity) when calculating your aggregated turnover. These rules aim to prevent businesses splitting their activities in order to inappropriately access the small business entity concessions.

An entity is connected with another entity if:

- either entity controls the other, or
- both entities are controlled by the same third entity.

For example, an entity is connected with you if that entity:

- is controlled by you
- controls you
- is controlled by another entity that also controls you
- is controlled by your affiliate
- is controlled by you together with your affiliate
- is controlled by an entity that you control.

Marshall Michael can work out whether a control relationship exists between entities using the control rules.

An affiliate is any individual or company that, in relation to their business affairs, acts or could reasonably be expected to act:

- according to your directions or wishes, or
 - in concert with you.
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There are three alternative methods to work out if you are a small business entity for the current year, but most businesses will only need to consider the first method.

1. Previous year turnover

If your aggregated turnover for the previous income year was less than \$10 million, you are a small business entity.

2. Estimate your current year turnover

If you estimate that your aggregated turnover for the current year (worked out as at the first day of the income year) is likely to be less than \$10 million, you will be a small business entity for the current year. However, you can only estimate your current year turnover if your aggregated turnover for one of the two previous income years was less than \$10 million.

3. Actual current year turnover

If you are unable to use the first two methods, you will need to calculate your aggregated turnover as at the end of the income year. If your actual aggregated turnover is less than \$10 million, you will be a small business entity for that year.

Note: If your business is carried on as a partnership, it is the partnership and not the individual partner that must be the small business entity.