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newsletter

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Practice Update

Please read this update and contact this office if you have any queries

MAY 2007

Changes to the CGT concessions for small business – 2006/07 year

The legislation bringing in a raft of changes to the small business CGT concessions, announced in last year's Budget, is now law.

These changes apply from 1 July 2006, and should make it easier for many small businesses to access these generous concessions.

Editor: If a small business taxpayer disposes of a business asset, including goodwill, and is able to use the small business CGT concessions, it can potentially reduce the capital gain to nil!

The small business CGT concessions are:

- the 50% active asset reduction (which can be used in addition to the 50% discount for individuals and trusts, to effectively reduce a capital gain by 75%);
- the 15-year exemption (which can entirely exempt a gain on an asset held for at least 15 years from CGT);
- the retirement exemption (which can be used to exempt up to $500,000 worth of capital gains over the life of an individual from CGT); and
- the small business active asset rollover (which allows a taxpayer to defer paying CGT on a capital gain now, by rolling the gain over into a replacement asset).

The new changes to the small business CGT concessions include:

- making it easier for small businesses to access the concessions, by making it easier to meet the $5 million net asset value test;
- for partners of partnerships, applying the $5 million net asset value test to the value of assets of the individual partners rather than to the partnership as a whole;
- making it easier for companies and trusts to access certain concessions (e.g., the retirement exemption and the 15-year exemption), by replacing the requirement for there to be an individual with a 50% interest in the entity with a requirement that there be an individual with a 20% interest;
- allowing a person to gift a business asset and still access the retirement exemption, rather than requiring the asset to be sold;
- removing the requirement that an asset be 'active' (i.e., a business asset) immediately before it was sold (meaning that the concessions will now simply be available for an asset which was active for the lesser of half of its life, or 7.5 years); and
- allowing legal personal representatives or beneficiaries of a deceased estate to access the concessions.

Editor: Since these changes apply to the current income year (and further changes are planned from 1 July 2007), any small businesses contemplating selling any capital assets should contact us first, to determine whether, and when, any of these concessions may be available.

2006/07 cents per km rates

The ATO has released the 2006/07 cents per kilometre rates for claiming income tax deductions for car expenses.

Engine capacity (non-rotary)	Engine capacity rotary	Rate (cents)
0 – 1,600cc	0 – 800cc	58
1,601 – 2,600cc	801 – 1,300cc	69
2,601cc+	1,301cc+	70

FBT: Record keeping exemption

The small business record keeping exemption threshold for the FBT year commencing 1 April 2007 is $6,614, replacing the amount of $6,391 that applied in the previous FBT year.

FBT: Per km rates for vehicles other than cars

The following are the rates to be applied where the cents per kilometre basis is used to calculate the taxable value of a fringe benefit arising from the private use of a motor vehicle *other than a car* for the FBT year commencing 1 April 2007:

Engine capacity	Rate per km
0 – 2500cc	41 cents
Over 2500cc	49 cents
Motor cycles	12 cents

This method can only be used where there is extensive business use of the vehicle.

Editor: Note that these rates are only for FBT purposes, not income tax purposes.

FBT reporting exemption for pooled cars

From 1 April 2007, employees who have pooled or shared private use of their employer's cars do not need to have the grossed up taxable value of such fringe benefits reported on their payment summaries.

A pooled or shared car is a vehicle that is provided by an employer for the private use of two or more employees.

FBT: Benchmark interest rate

The benchmark interest rate for the FBT year commencing 1 April 2007 is 8.05% p.a – replacing the rate of 7.30% that applied in 2005/06.

More on super changes

Editor: The ATO has set out what they see are some of the immediate administrative impacts 'we all need to implement', in relation to the Simpler Superannuation changes starting 1 July 2007.

Quoting tax file numbers (TFNs)
From 1 July 2007, superannuation funds will:

- pay tax at 46.5% on the contributions received in the income year for member accounts where no TFN has been quoted;
- be prohibited from accepting certain contributions for accounts where no TFN has been quoted to the fund; and
- have to report TFNs on members' contribution statements.

ATO mailout to commence
The ATO will be writing to the holders of 2.7 million superannuation accounts that do not have a TFN recorded from late April, asking those members if they can send their TFN to their superannuation fund.

They will have 28 days to let the ATO know if they do not want the TFN passed to the fund, otherwise the TFNs will be passed to the relevant funds.

"Employment" Termination Payments
Eligible termination payments as they currently exist will be replaced by "employment" termination payments and superannuation benefits from 1 July 2007.

Employment termination payments will cover payments where somebody is terminated from their employment.

Generally, employment termination payments will no longer be rolled into a superannuation fund.

However, there are some transitional arrangements for people that have employment entitlements in place before 10 May 2006.

Payments made under these arrangements will attract tax concessions designed to broadly mirror existing arrangements, and can be rolled into superannuation.