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# 2017 Spring Newsletter



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## Heading into Spring ...

... we all hope the long flu season will be left behind us as we launch into an exciting season of footy finals!

Our newsletters aim to keep you informed about a wide range of areas that impact you. In this edition you will find articles on tips for tax time, changes to property expense deductibility, and whether the Great Australian Dream of owning real estate is still affordable, improving reporting and client communications with changes to the SMSF transfer balance cap, the ATO raising the possibility simplifying the CGT system, and conquering the fear of failure.

The advice in this newsletter is of course generic, rather than personal advice, and we encourage you to call our office to discuss any article or any matter relating to your personal circumstances. As an example, if you would like to arrange a review of any of your finance needs, I can introduce you to assistance with home loans, investment loans, construction loans, tax debt finance, car loans or any business equipment finance.

### General Advice Warning

Information provided in this newsletter is general in nature only and does not constitute personal advice. The information has been prepared without taking into account your personal objectives or needs. Before acting on any information in this newsletter you should consider the appropriateness of the information having regard to your objectives and needs.



## Tax Time Deductions for Small Business

Whilst you cannot claim private expenses, as a small business owner, you can claim a deduction for most costs you incur in running your business, for example staff wages, marketing, and business finance costs.

Just remember to always ensure you keep records to support your claims.

### What business travel expenses can I claim?

If you or your employees travel for business, you can claim:

- airfares, train, bus or taxi fares
- accommodation costs and meal expenses for overnight business travel, noting that fringe benefits tax may apply for some employee travel expenses.



### Can I deduct the cost of some assets straight away?

If you use the simplified depreciation rules, you claim a deduction:

- immediately – for the business portion of depreciating assets costing less than \$20,000 each
- over time – for most other assets, combining costs into a small business pool and claiming a set percentage each year
- immediately – if the balance of your pool is less than \$20,000 at the end of the income year.

### What can I claim if I have a home-based business?

If you run your business at your home, or your business is based from home, you can claim the business portion of some expenses, including mortgage interest and electricity.

Keeping in mind if you sell your home, you may have to pay capital gains tax (CGT) on the business portion and declare it in your tax return.

*To find out more about what you can claim as a small business owner, give us a call. We are here to help!*



## HUGE WIN FOR SMALL BUSINESS

The government's move to legislate significant amendments to competition laws in a bid to deter anti-competitive conduct has been called a huge win, for small businesses in particular. The amendment will help address anti-competitive conduct and protect the competition process rather than the interests of individual players in the market.

In mid-August the Competition and Consumer Amendment (Misuse of Market Power) Bill 2017 was passed to implement a key recommendation of the

Harper Competition Policy Review to strengthen Section 46 of the Competition and Consumer Act 2010. The 2015 Harper Review had found that the misuse of market power law was not reliably enforceable and did not effectively target and deter anti-competitive conduct.

The reformed Section 46 will prohibit a corporation from engaging in conduct with the purpose, effect or likely effect of substantially lessening competition in a market in which it directly or indirectly participates.

## Changes to Property Expense Deductibility One Step Closer

In early July, the Turnbull government released draft legislation and explanatory material for the housing affordability and tax integrity measures announced in the 2017-18 Budget, with submissions to the draft legislation closing on 10 August 2017.

The proposed legislation means that **property investors will no longer be able to claim travel expenses to inspect residential investment properties**, in addition to limits to the depreciation deduction claims for investors on properties purchased after 9 May 2017.

Property investors need to be aware that irrespective of when you bought your property, you will no longer be able to claim travel for visiting and inspecting rental properties as it is a total outright ban on deductibility.

Whilst the limits to plant and equipment deductibility will only be applicable on properties purchased after 9 May 2017.



# Is the Great Australian Dream Falling From Our Grasp?

Recent research has shown many young families are now either renting or living with their parents, with, according to The Australian, “soaring house prices robbing couples under the age of 40 the Australian dream...”.

## What people think about the Great Australian Dream...

<b>44%</b>	Won't be able to afford a home in next five years, despite wanting to.
<b>61%</b>	Believe property prices won't fall in next five years.
<b>27%</b>	Believe they will never be able to afford a home.
<b>35%</b>	Don't see home ownership as a 'priority' in their life.

Source: ServiceSeeking.com.au survey of 3200 businesses and customers.

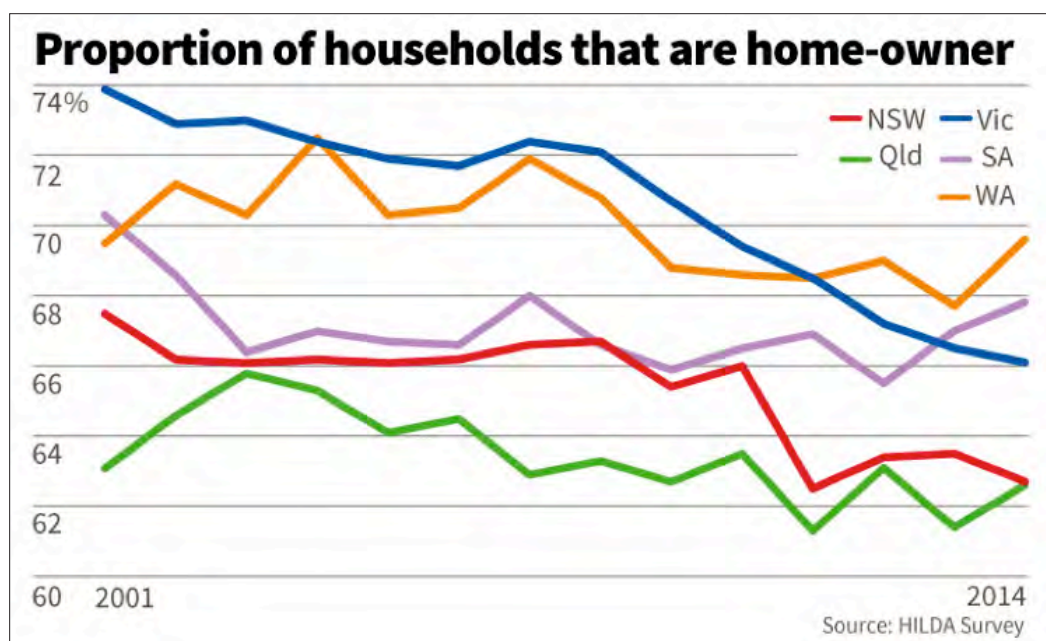
“This contradicts the ‘Great Australian Dream’ of property ownership and shows how rising house prices are changing Australian culture,” ServiceSeeking chief executive Jeremy Levitt said. “Housing prices and living costs are higher than ever, making it more difficult

for younger generations to buy a home. The whole perception of home ownership and its importance in our lives has changed.”

A June survey from Mortgage Choice found almost two-thirds of Australians consider home ownership to be something for the wealthy. However, an earlier survey by the same company indicated 86% of respondents still want to own real estate – most likely an apartment.

The median house price is now about seven to eight times the annual salary – triple what it was for Gen Y’s grandparents. This has seen a shift towards investing in real estate – as opposed to buying a home to live in – and renting. This strategy, called rentvesting, has been marketed as a way for first-home buyers to get a foot on the ladder.

First Home Buyers Australia co-founder, Taj Singh, said young Australians who were still keen to own a home were having to compromise, by buying a smaller property, or something further away from the city, and delaying “big ticket items” such as cars or holidays.



# Will Government Intervention Improve Housing Affordability?

Trilogy Funds' Executive Chairman, Rodger Bacon, points out that there are several notable points about the current property boom, but one important fact is often ignored. The Australian property market is not one single unified market, but many disparate markets, geographically unique and at varying positions in the property cycle. When people talk generally about Australia being one of the most expensive, overpriced property markets in the world, they are usually focussing on two of these markets – inner-Sydney and inner-Melbourne.

## Quarterly stratified median prices, Domain Quarterly State of the Market Report to June 2017

HOUSE	JUN 2017	MAR 2017	JUN 2016	QUARTERLY CHANGE %	ANNUAL CHANGE %
Sydney	\$1,178,417	\$1,159,860	\$1,046,068	1.6%	12.7%
Melbourne	\$865,712	\$836,437	\$752,083	3.5%	15.1%
Brisbane	\$546,043	\$546,728	\$529,438	-0.1%	3.1%
Adelaide	\$524,968	\$520,194	\$492,252	0.9%	6.6%
Perth	\$555,788	\$566,221	\$577,778	-1.8%	-3.8%
Canberra	\$723,299	\$696,175	\$664,133	3.9%	8.9%
Hobart	\$404,522	\$388,011	\$351,187	4.3%	15.2%
Darwin	\$666,686	\$628,629	\$594,144	6.1%	12.2%
National	\$818,416	\$804,924	\$743,264	1.7%	10.1%

This boom in prices in inner-Sydney and inner-Melbourne has presented the government with a conundrum. Whilst policies such as negative gearing have fuelled the property investment boom in our biggest markets, at the same time the government has been under pressure to reduce investor competition to allow first home buyers to get on the property ladder – without negatively impacting prices.

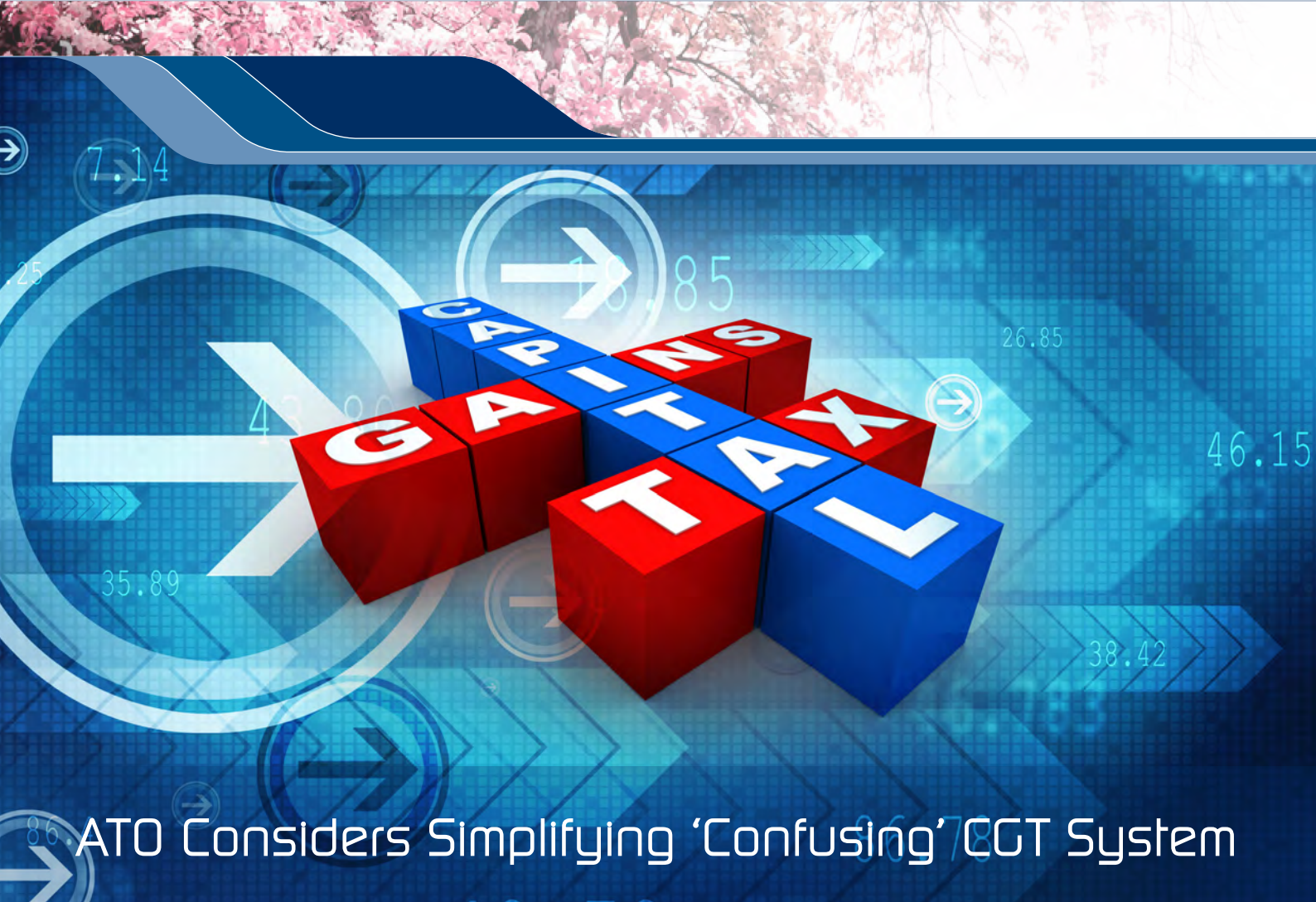
This hasn't been a problem solely for the government. The Reserve Bank has also been under pressure to slow the rapid price growth in Sydney and Melbourne all the while without having a negative impact on other Australian markets.

Since March 2017, the Australian Prudential Regulation Authority (APRA) has introduced greater restrictions on investment loans, in an attempt to balance out the

market. Whilst the value of all dwelling commitments rose by 1.3% to just over \$33 billion during the month of May 2017, this remarkably included both a 2.9% increase in the value of home loan approvals for owner-occupied housing and a 1.4% decrease for the value of investment loans.

Fortunately – or unfortunately, depending on where you sit on the property ladder – loan approval figures don't tell the whole story.

Mr Bacon concluded that, "Whilst APRA regulations may go some way to reducing the number of Australian investors using debt to secure property, they will have little impact on overseas investors or those who don't require a loan. Only time will tell if these changes have the desired effect."



## ATO Considers Simplifying 'Confusing' CGT System

As recently reported in the Accountants Daily, the ATO has floated the idea of a simpler approach to elements of capital gains tax (CGT) in an effort to minimise what is currently a huge amount of 'unnecessary and confusing clutter'.

Speaking at a recent forum, ATO second commissioner Andrew Mills said a simple principled approach to CGT events would bring about flexibility in dealing with a changing world and emerging practices.

"A simply expressed CGT principle will cut a swathe through a significant amount of unnecessary and confusing clutter, saving enormous compliance and administration costs, increasing the productivity of the Australian economy and, importantly, making the tax practitioner's life that much easier," Mr Mills said.

"I find it difficult to fathom or justify a system that takes almost 200 pages of events regarding assets, their cost base and proceeds to say, 'If you make a capital gain, include it in your income'. The current structure of the CGT rules dooms us to a continuing tinkering and potentially results in an even larger set of rules into the future."

Mr Mills pointed to the draft white paper "Reform of the Australian Tax System" (RATS) released in 1985 as the "closest we got to a broad overarching policy statement of CGT". "The proposal contained in RATS in relation to taxing capital gains was simply that it be applied on a realisation

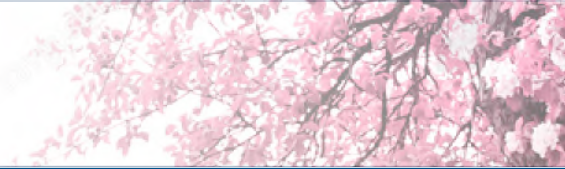
basis with losses offset against gains or carried forward, an inflation adjustment mechanism and limited exemptions," said Mr Mills. "It mentioned nothing of the way in which the gains or losses should be identified or calculated".

He argued that the solution was to keep it simple and state what was to be subject to tax in a principled way. "In my view... it would look something like this: Include in your assessable income any net capital gain that you make. A net capital gain is capital gains less capital losses."

Instead of blaming the CGT events, Mr Molesworth urged to look at the policy underpinning the CGT regime itself. "There is nothing inherently wrong with the CGT events, what we are missing is what we are trying to tax," said Mr Molesworth.

"In reality, the CGT system has for many years not been about taxing the appreciation of the value of assets which are realised. It's an 'everything else' tax. What needs to change is our expectation of the CGT system itself," Mr Molesworth added. "I think we should just rename the CGT system to the Comprehensive Gains Tax system... we will end up with a system that is conceptually based. We will admit to ourselves this is no longer about taxing capital gains but we will require the need to state with certainty and simplicity where taxpayers have to return those gains and when they should return those gains."

*From article by Jotham Lian*



# Improving Reporting and Communication with Your Accountant

As recently reported in the Accountants Daily, according to the ATO, a looming new reporting requirement for wealthy clients will see a spike in how often accountants, tax agents and their clients need to interact.

From 1 July 2018, accountants with SMSF clients will be required to report events which impact on a member's \$1.6 million transfer balance account in real time. Despite industry speculation, the only events that are required to be reported on a more regular basis are related to the transfer balance cap - not investment earnings, investment gains, or investment losses.

ATO assistant commissioner Kasey Macfarlane said the tax office recognises this is a significant change for tax

agents, accountants and their SMSF clients, impacting on the dynamic and requiring improved communication between tax agents, accountants and their clients, to ensure all those events are reported.

Ms Macfarlane is also confident that the ATO's digital systems will be able to cope with the increased volume of reporting from super funds, starting with APRA funds in October this year. "I am confident that, as planned from October this year, our systems will be ready and able to receive that reported information from large APRA funds, and any SMSFs that want to report more regularly before 1 July 2018," she said.



# 5 Effective Tips to Overcome the Fear of Failure

By Small Business expert, Alyssa Gregory

Starting a business isn't easy. There are so many things to do, research, test and explore before you can take the plunge. When you add the fear of failure to the mix, it's no surprise that many aspiring small business owners never get their businesses off the ground.

Fear of failure can be paralyzing. It can make you question what you're doing and why you're doing it. Fear can cause you to over plan and never take the first step. It can eat away at your confidence, and eventually, leave you feeling incapable of taking action.

But fear can also be motivating. When you know what you're reaching for, and are aware of the fear that might hold you back, you can take steps to use the uncertainty and worry to propel yourself forward. If you're starting a business or on the brink of another significant accomplishment, use these tips to overcome the fear of failure and push through to success.

## 1. Do Your Research

Fear of failure can often be exacerbated when there is a lengthy list of unknowns. While you can't possibly have every piece of relevant information, arming yourself with the most important data and using it to make smarter decisions can help alleviate the fear of failing. Having access to information, and being 'in the know' can be empowering.

One thing to be cautious of when researching and gathering information is not focusing so much on data that you lose sight of the purpose. It is possible to become so enthralled in the research stage that you enter a passive, stationary mode, and have an even harder time taking action. Be diligent and thorough when gathering information, but keep it in perspective.

## 2. Create a Solid Plan

Writing a business plan isn't easy, but it is well worth the effort.

An effective plan can help you take an idea from the earliest stage and create a thriving business. It can act as your roadmap by guiding you through the entire business start-up and growth process.

Setting goals can also be an effective way to stick to a plan and eliminate some of the fear. Breaking down your larger goals into small action steps and using the SMART goal setting method can be effective ways to use planning to reduce the fear of failure.

## 3. Identify a Plan B

Some may say that creating a contingency plan sets you up for failure, but in reality, having a fall-back plan can make it easier to take a chance. When you start out in business you are taking a measured risk. By considering the possible outcomes and planning for them accordingly, you can build confidence and be secure in your decisions.

It's also important to note that your Plan B doesn't have to focus solely on an alternative course that you will take if you are to fail. Your Plan B can be a way for you to consider and plan for alternative paths to reach your end goal. This can give you flexibility and help you make adjustments to your primary goal as you go through the process.

## 4. Consider the Price of Inaction

Envisioning what may happen if you don't take a chance by striving for your goal and starting a business can be a powerful motivator.

The thought of what it may feel like, now and in the future, to know that you had a dream to start a business and never took the leap, may be enough to push you past the fear.

## 5. Get Support

When you do something alone, it's easy to get stuck inside your own head. The uncertainty, questions and fear of failure can be overwhelming when you don't have a support system to join you on your journey. Your support system could be a business partner, spouse, mentor, coach, friend, local networking group, and your friendly accountant! As long as your support system boosts your confidence, helps you think objectively and cheers you on, you can often reduce the fear of failure because you know you are not alone.

Fear is not a bad thing. It can make you work harder, prepare more and enjoy your success fully. If you're starting a business and feel overcome by a fear of failure, trying letting go and embracing the challenge, and you may be surprised where it takes you.