

Practice Update

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

JUNE 2003

Federal Budget: New Tax Rates from 1 July 2003

The following new tax thresholds (and rates) for individuals were announced in the Federal Budget and will apply from 1 July 2003. Company tax rates were unaltered at 30%.

| <u>New tax thresholds</u> | <u>Tax rate</u> |
|---------------------------|-----------------|
| \$ | % |
| \$0 – \$6,000 | 0 |
| \$6,001 – \$21,600 | 17 |
| \$21,601 – \$52,000 | 30 |
| \$52,001 – \$62,500 | 42 |
| \$62,501 + | 47 |

These changes will also be reflected in the thresholds applying to non-residents.

Quarterly superannuation guarantee

The ATO has issued a Fact Sheet which outlines what employers will be required to do under the new quarterly superannuation guarantee (SG) regime that comes into operation on 1 July 2003.

From 1 July 2003, employers will need to:

- ◆ calculate and pay 9% of each of their eligible employees' earnings to a complying superannuation provider at least quarterly – eligible employees are basically those who are paid at least \$450 a month;

- ◆ report details of the contributions to employees in writing at least quarterly;
- ◆ keep records of all contributions made; and
- ◆ keep records of when, what and how they reported contributions to their employees.

Any shortfall *on a quarterly basis* will result in a liability to the superannuation guarantee surcharge (SGC) – including the administration charge and interest.

The new dates for complying with the requirements are:

| Quarter | Cut off dates for contributions | Due dates for payment of SGC |
|-------------------|--|-------------------------------------|
| 1 July – 30 Sept | 28 Oct | 14 Nov |
| 1 Oct – 31 Dec | 28 Jan | 14 Feb |
| 1 Jan – 31 Mar | 28 April | 14 May |
| 1 April – 30 June | 28 July | 14 Aug |

Interest on loan shortfalls where shares sold

Many clients might have experienced losses on shares sold over the past few years.

Some may even have found themselves selling shares for less than the loan outstanding for their acquisition.

A "loan shortfall amount" arises where a taxpayer has disposed of shares (or other income producing asset) for less than the outstanding loan balance.

The good news is that taxpayers can claim a deduction for interest on this loan shortfall.

To obtain a full deduction, all the sale proceeds must be used to pay off the original loan or, alternatively, to purchase income producing assets.

If only part of the proceeds is so used, then the interest deduction may have to be apportioned.

EXAMPLE

Darren obtained a loan of \$100,000 for a fixed term of five years to purchase shares in Telco Pty Ltd.

After holding the shares for 3 years earning modest dividends, the shares were sold for \$60,000.

This \$60,000 was used to reduce the outstanding loan but this left a loan shortfall amount of \$40,000.

Darren can claim a deduction for interest that accrues on the loan shortfall amount on the basis that:

- the sale proceeds were applied to the repayment of the loan;
- the loan is for a fixed term;
- the taxpayer did not have the capacity to repay the loan; and
- there is no entitlement to repay the loan early.

Some of these factors may not be vital.

New minimum lease residuals

As a result of the ATO increasing the effective life of cars from 6^{2/3} years to 8 years from 1 July 2002, they have advised the following minimum lease residuals now apply:

| Term of lease | Cars acquired | |
|---------------|--------------------|------------------|
| | before 1 July 2002 | from 1 July 2002 |
| 1st year | 63.75% | 65.63% |
| 2nd year | 52.50% | 56.25% |
| 3rd year | 41.25% | 46.88% |
| 4th year | 30.00% | 37.50% |
| 5th year | 18.75% | 28.13% |

The minimum lease residuals above are calculated on the GST-inclusive value of the leased car at the commencement of the lease.

GST and the disposal of motor vehicles

The ATO has issued a fact sheet that explains the GST treatment of:

- ◆ motor vehicle trade-ins,
- ◆ sale or transfer of ownership to associates,
- ◆ adjustment to GST on disposal of a motor vehicle used partly for private purposes or for making input taxed supplies, and
- ◆ cars held when a GST registration is cancelled.

Motor vehicle trade-ins

If a taxpayer is registered for GST and they trade in a vehicle used solely or partly for business, they must account for GST, as this is a taxable supply.

They will also need to provide a tax invoice to the car dealer showing the value of the trade-in and the GST payable. The trade-in amount must be reported on the BAS, even if the vehicle disposed of was originally bought before the introduction of GST.

Sale or transfer of ownership to associates

When a car is sold or transferred to associates for less than the market value, GST must be calculated as though it had been sold for its market value.

When a GST registration is cancelled

When a business enterprise cancels its GST registration, it may still hold motor vehicles on which it has, or is entitled to claim input tax credits.

In this situation, the amount of GST to be paid is subject to an increasing adjustment to reflect the market value and percentage of business use of the motor vehicle at the time of sale.

Cars used partly for private purposes or for making input taxed supplies

If a taxpayer owns a car for making financial supplies or partly for a private purpose, they may be entitled to reduce the GST payable when they dispose of the motor vehicle.

This is known as a decreasing adjustment. The adjustment does not reduce the amount of GST accounted for on disposal of an asset, but reduces the amount of GST payable to the Tax Office.

This adjustment does not apply to cars purchased before the introduction of GST or from 1 July 2000 to 23 May 2001 on which no input tax credits were available.

Editor: Contact our office if you need assistance.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.