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BUSINESS BULLETIN SUMMER 2019

Tax – Negative Gearing and Possible Changes

Negative gearing has been in the news lately with the Federal Opposition announcing changes to this area of the law in the event that they form Government after the forthcoming Election.

Negative gearing is an often-used and sometimes misunderstood phrase in relation to property, shares and borrowings. When boiled down to its basics, negative gearing refers to the practice of accepting a short-term loss from an investment with a view to trading that loss off at a later date against a greater capital gain. Therefore, for a negative gearing exercise to work, it's important to select an asset that has potential for capital growth – otherwise

KEY DATES

21 DECEMBER
Due date for November 2018 monthly Activity Statements

21 JANUARY
Due date for December 2018 monthly Activity Statements except for Small Businesses who report GST monthly and lodge electronically

28 JANUARY
Due date for quarterly (Oct - Dec) Superannuation Guarantee contributions

21 FEBRUARY
Due date for December 2018 monthly Activity Statements for Small Businesses who report GST monthly and lodge electronically

21 FEBRUARY
Due date for January 2019 monthly Activity Statements

28 FEBRUARY
Due date for quarterly (Oct-Dec) Activity Statements

Tax – Negative Gearing and Possible Changes...Cont

all those losses you have been absorbing while holding the negatively geared investment will not have been worthwhile. An investment is said to be negatively geared if, after taking into consideration all of the income and expenses associated with holding the asset (i.e. property, shares), the investment shows a negative net return. Whilst all taxpayers can negatively gear, it is typically more appealing to taxpayers with higher marginal rates of income tax. This is because the ATO allows an offset of the loss from the holding of a negatively geared investment against other income. Therefore, the higher a taxpayer's marginal tax rate, the greater the benefit from a gearing strategy.

The Opposition if elected will limit negative gearing to new housing from a yet-to-be-determined date after the next election. All investments made before this date will not be affected by this change and will be fully grandfathered. This will mean that taxpayers will continue to be able to deduct net rental losses against their wage income, providing the losses come from newly constructed housing.

From a yet-to-be-determined date after the next election losses from new investments in shares

and existing properties can still be used to offset investment income tax liabilities. These losses can also continue to be carried forward to offset the final capital gain on the investment.

The Opposition has confirmed that its restrictions for negative gearing would apply on a global basis to every taxpayer on the totality of their investments. For example, if the total of the interest and deductions related to investments exceed the investment income, the excess would not be able to be used for offset against other non-investment income. This excess would need to be carried forward for offset against future investment income or capital gains. Importantly, a taxpayer would not have to look at each individual investment, or at any particular asset class.

Rather, the policy would continue to allow people to hold, for example, 4, 5, or 6 properties with some

positively geared and some negatively geared. Provided the overall positives exceed the overall negatives, there will be no problem.

If these changes become law, we make the following observations:

- Hardest hit are new investors wanting to buy existing property and those gearing into shares that don't pay reasonable dividends.
- People will likely juggle their investment mix. Those already in the game can offset negative versus positive, and if they are already negative then they can just invest in new property.
- Those starting out just buy new property.
- Carrying forward of losses means it is just a timing exercise for the Government i.e. they collect more tax now but then give it back later.

Finance – Big Penalties for Excessive Payment Surcharges

With the vast majority of customers now paying by card, laws have been recently been passed banning all businesses across Australia from charging excessive payment surcharges for accepting certain payment methods.

Payment surcharges are deemed to be excessive if they exceed the 'cost of acceptance' for the payment method. This means the surcharge you pass on to consumers should not be more than the direct fee for the payment method, such as bank fees and terminal costs. For example, if it costs a business 1.5% to process a payment via a consumer's Visa or Mastercard credit card, then the extra charge to the consumer should be exactly the same (and no more).

The Australian Competition and Consumer Commission (ACCC) has been closely checking surcharges charged by business, with Lloyds Auctioneers and Valuers recently paying more than $37,000 in penalties after complaints were received that its customers paid hundreds of dollars in excessive surcharges on big-ticket auction items. The ACCC found that Lloyds charged its customers a standard 2.25% fee for making payments online between September 2017 and March this year. These surcharges were considered excessive because they were 1.43% higher than Lloyds' actual cost of processing those payments.

The ACCC has since taken action against a further five separate traders for imposing excessive payment surcharges.

To find out the requirements for business, read the [ACCC's guide on payment surcharges.]

Year-End

With another calendar year drawing to a close, most people start to reflect on the goals they have set for the year just gone and the projects they had wanted to complete. With only a few weeks left in the year, the reality is that you may not get all those projects done. Having realised this, it's easy to become dis-spirited. Don't!

The trick at this stage of the year is to identify the unfinished projects which, realistically, are capable of being completed by the end of the year. Aim to do these first. Cross them off the list. You'll feel better for it and have a sense of accomplishment. Once you've done these tasks, if time permits, you can scratch the surface of the projects that you won't get finished. But be realistic and recognise that some of these larger projects will, by necessity, spill into next year. Once you have made peace with that reality, you will feel a burden being lifted. Make these last few weeks of the year count!

Other tips over the Summer break include:

- Read a personal improvement book
- Review your current marketing avenues and evaluate their effectiveness
- Look at your own skill-sets (and those of your staff if you have any) and identify any weaknesses or gaps
- Get started on a business plan if you do not already have one.