Welcome to our latest e-newsletter.

There's been a lot going on over the last couple of months. In this issue we look at what the impact of the recent company tax rate reduction means for small-medium businesses and alert you to the upcoming changes in superannuation, which take effect from 1st July. Of particular importance is that reduced contribution limits come into play. Finally, we're also pleased to announce a special project that our managing director is involved with.

In this edition...

Company tax rate cut - what does it mean for small business...and the economy?

By now it's old news that the Government has managed to get a modified version of its proposed cuts to the company tax rate through the Senate. There is certainly one element of the new measures that will be good for small to medium businesses, but the significance of the overall economic impact is a little more grey.

The original Budget proposal involved a progressive reduction in the company tax rate from 30% to 25% over a 10 year period. By 2026-27, all companies were to be subject to the new final rate of 25%.

The legislation essentially passed in this form, with one major amendment. The ten year timeline for the reduction will only apply to companies with turnover up to $50 million. At this stage, larger companies, and non-business entities, will be subject to the existing 30% rate indefinitely. The Government has signalled its intention to continue pursuing a reduction for all companies, but obviously this remains uncertain with a difficult Parliament to negotiate with.

The good news for small-medium enterprises is that the change to the small business turnover threshold to $10 million made it through. The first reduction in the rate, to 27.5%, had been connected with the existing small business concessions, which applied to businesses with a turnover of less than $2 million per annum. It was proposed that this limit would be increased to $10 million, which would give more companies access to these measures in addition to the company tax rate cut, however Labor had been opposing this change (and in fact any corporate tax rate reduction other than to those companies under the current $2 million threshold).

The small business tax concessions are a range of provisions that deliver additional relief for smaller businesses, including the current instant write-off measure for assets costing less than $20,000 (although this will only be available until 30th June 2017 at the moment, failing an extension in tomorrow's Federal Budget).

This is a big win for businesses with a turnover between $2 million and $10 million. Not only will this year's profit be subjected to a significantly lower tax rate (it had been 30% for these entities) but they will also be able to access these extra small business concessions. Aside from the increased instant asset write-off limit, other advantages to being classified as a 'small' business include more simplified depreciation and trading stock rules, and immediate deductions for prepaid expenses.

There is, however, one restriction. The eligibility threshold for the small business capital gains tax concession remains at $2 million.

Despite the positive news for small business, there remains a question mark over the deliverability and effectiveness of the overall proposal from a macro-economic perspective.

The protracted timeline for delivering the full extent of the cuts may mean we will never see them realised in their entirety. Ten years is a lifetime in politics. Aside from the fact that the odds are against any Government holding power for that many terms, and new Governments often tend to rescind the proposed measures of their predecessors, Governments have in fact wound back their own proposals in recent years, in an effort to balance an increasingly precarious bottom line. Last year's big announcement becomes this year's 'delay' or 'modification'. What is the real likelihood that a tax cut due to be delivered progressively over ten years survives that entire period in its current form, regardless of who is in power?

Further, small-medium business enterprises tend to use companies more as an asset protection and structuring mechanism. This often means that they pay out a lot of their profits as dividends. The result is that the total amount of tax paid (company and personal) by a person using a company remains the same. They simply pay more personal tax and less company tax.

The amendment to limit access to the cuts to companies with turnover of less than $50 million may therefore mean that the primary benefit of reducing the corporate tax rate - making Australia a more attractive tax jurisdiction for foreign investment - is somewhat diluted.

There will also be some additional compliance costs in managing the different tax rates, assuming they are all implemented, and the increased complexity of more thresholds, applicable in different years, will invariably require greater tax planning (and more cost) for many companies.

It's natural that the lack of a clear majority in both houses means that compromises must be made to secure the passage of some legislation. It might even be said that this is an example of democracy at work. However in this case the concessions made by the Government may well eliminate much of the moderate economic benefit that a reduced corporate tax rate might deliver.

We're probably sounding like a broken record at this point, but from our perspective the greatest economic advantage that any Government can deliver to people in business, and through them, the wider economy, is to implement genuine, courageous tax reform by reducing inefficiency and complexity, and cutting the cost of compliance. There will be some positive impact to small-medium business from these changes, mostly from greater access to the small business concessions, but the hope of real reform continues to remain elusive.

Super changes - new, lower contribution limits from 1st July

We're now only a couple of months away from the implementation date for

Introducing ConnectEd Cambodia

Our managing director John Manning has started a Not-For-Profit group with some friends that will be working to help resource educational projects in

the most significant reforms to superannuation in a decade.

This may be our final opportunity to remind you that after 30th June, the amount of concessional and non-concessional contributions you can put into super will reduce, so if you have any extra money you'd like to get into super, now might be the time to do it.

From 1st July, the amount that you can put into super by way of tax deductible contributions (either employer or employee) will drop to $25,000 for all members. In addition, the non-concessional limits (those amounts you put into super after-tax, from your own money) will reduce from $180,000 per year, or $540,000 in any three year period, to $100,000 per annum, or $300,000 in any three year period.

Subject to appropriate advice from your licensed financial services provider, the next couple of months may represent a great opportunity to significantly top up your retirement savings before the new, more restrictive limits kick in.

The new changes also mean that if you have a Self-Managed Super Fund, there may be some more work involved for the upcoming year to ensure that your fund is compliant.

One of the concessions made in the final form of the legislation involved the opportunity to reset the cost base of investments and other assets in the fund. We detailed the rationale for this in a previous newsletter. Those affected are members who have a personal balance in their fund over $1.6 million and are already taking a pension.

Cambodia. It's called ConnectEd Cambodia.

Just by way of background, the education system in Cambodia is broken in many ways, including being plagued by corruption and a lack of development. Many children from disadvantaged backgrounds drop out of school early, and the risk of being trafficked into the sex-trade can be high. Even when children do attend school regularly, it doesn't mean they learn well and it can be the case that children who cannot afford to 'pay' their teachers a daily amount don't get taught. This can keep happening all the way through to year 12.

For this reason, there are many agencies working in Cambodia to help improve educational outcomes for impoverished children. This happens either by way of private schooling, which replaces the public system, or supplementary training in addition to public schooling which provides tutoring, additional classes, vocational training and resources. It also can include providing food and medical support for families and communities, which in turn takes care of basic needs and allows families to then focus on keeping kids in school instead of taking them out for work. All of this helps to break the poverty cycle, and as such it's about education as a means of positive aid and development.

ConnectEd Cambodia is not about adding another name to the list of those working in this space, but rather seeks to support agencies that are already doing great work. Most of them are 100% funded by private donations, and as such are desperately under-resourced.

If this is you, then regretfully it may mean there is more work involved in preparing your SMSF returns and financial statements this year. Aside from needing to separate balances and transfer some of your pension balance back into accumulation, we may also need to prepare declarations and record new cost bases for your assets, and give consideration (in consultation with members) to whether resetting the cost base for some investments is in fact the most cost-effective option.

By resetting the cost base, the purchase date is also reset, which means if assets are then sold within 12 months of the end of the financial year, more capital gains tax might be payable (there is a reduction of one third for assets held longer than 12 months). Some planning and projection work may therefore be required to assess the likelihood of any sale and its financial impact.

We will communicate with you if you're likely to be affected and give you an estimate of how much extra work will be involved.

The good news is that there is still a couple of months to go before the contributions limits are tightened.

If you'd like to discuss the taxation implications of your superannuation contributions further, please contact us.

For personal financial advice, specific to your circumstances, you should consult your licensed financial adviser.

A great example of one of their partners is the Auscam Freedom Project.

The board of ConnectEd Cambodia is made up of three school teachers plus John, and its primary objective is about acquiring resources in Australia that can be of use to education-based NGOs in Cambodia. This may include used computers, English readers (English language is important in helping to train for jobs in hospitality) and other school resources that may seem essential to us but are luxury items in Cambodia. Schools and businesses here in Australia are always upgrading, but many of these items still have a lot of useful life left and can be of use. In addition, John and the team will also be looking at ways to help with teacher support and training, curriculum development, IT services and other 'human' resources.

In short, if a need is identified, they will be working here to try to fill it. It's less about raising money and more about making connections. The aim ultimately is to increase the exposure of agencies and connect people in Australia directly with them so that longer-term partnerships can be formed.

If you know of a school or business that is upgrading equipment or perhaps looking for a partnership with an overseas aid agency where almost all funds go direct to projects, please call our offices (08) 8291 7900 and ask for John, or email us at enquiries@dewings.com.au.