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How this works

In the 2015-16 income year, Company ABC has an aggregated turnover of $9 million. In the 2016-17 income year, its aggregated turnover increased to $11 million.

Therefore, for the 2016-17 income year, Company ABC will have:

- A corporate tax rate of 30% (having regard to its aggregated turnover of $11 million in the 2016-17 income year)
- A corporate tax rate for imputation purposes of 27.5% (based on an aggregated turnover of $9 million in the 2015-16 income year), and
- A corporate tax gross-up rate of 2.64 — that is, (100% - 27.5%)/27.5%.
- As a result, if Company ABC makes a distribution of $100 in the 2016-17 income year, the maximum franking credit that can be attached to the distribution is $37.88 — that is, $100/2.64.

Possible broader impact on shareholders

Companies will benefit from the rate cuts provided that the funds are retained. However the tax burden will be shifted to the shareholder upon distribution of a franked dividend.

Australian resident shareholders will pay more top-up tax on dividends received from companies eligible for the tax cuts as the company tax rate decreases.

Ultimately, the total tax liability on the company's pre-tax profits will still be at the shareholder's marginal rate, but a greater proportion of the burden will sift from the company to the shareholder over time. As the table below shows, the net cash received in relation to the dividend will remain the same.

Company aggregated turnover below $50m	2015	2030
Company pre-tax profit	$100	$100
Company tax rate	30%	25%
Franked dividend received	$70	$75
Franked credit (100% franked)	**$30**	**$25**
Total assessable	$100	$100
Gross tax payable (marginal rate 37%)	$37	$37
Less: franking credits	($30)	($25)
Top-up tax payable	$7	$12
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The sale of a business may be GST exempt if the enterprise is deemed to be a "going concern" — which refers to an enterprise's ability to continue trading. The ATO says a supply of a going concern occurs when:

- "a business is sold, and that sale includes all of the things that are necessary for the business to continue operating", and
- the business is carried on, "up until the day of sale".

The GST exemption has its advantages — a buyer of a business does not have to find extra funds to cover an additional amount to cover GST that is added to the purchase price. And while the buyer is entitled to get the tax back via the input tax credit system, this cannot happen until some time after the completion of the transaction. It should also be remembered that while the GST will eventually be refunded, any stamp duty that is payable on the sale of a business will include the amount for GST.

What are the requirements for the exemption?

Business owners may be aware of the existence of a GST exemption but not completely understand the way it operates. The GST legislation says that the sale of a going concern will be GST-free if:

- the sale is "for consideration"
- the purchaser "is registered, or required to be registered" for GST, and
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The sale of business contract will usually specify that the business (that is, the "supply") is a going concern when the contracts are exchanged. This is critical, because it shows that all parties to the sale acknowledge that the business is a going concern.

A vendor is required to supply "all of the things that are necessary" for the continued operation of the enterprise. This does not mean everything that is owned by the business. It does however mean those things without which the enterprise could not function. Generally, this includes the necessary assets such as premises, plant and equipment and customer contracts. It can also include arrangements such as ongoing advertising.

The legislation requires the vendor to carry on the business "up until the day of sale", with the business deemed to be transferred on the date on which "effective control and possession" of the business is handed over to the buyer. While this date generally refers to the settlement date, "the day of sale" may occur before or after the settlement date.

The tax liability risk (in case the ATO does not view the sale as a supply of a "going concern") ultimately lies with the seller, as it is the "supplier" in any transaction that is required to remit GST to the ATO.

Some vendors seek to avoid this tax liability risk related to the business by including a clause in the sale contract requiring the buyer to indemnify the vendor for any GST that may be payable in the event

that the ATO does not view the transaction as one of a going concern.

Business costs, and the deductibility of interest expenses

If a business racks up an interest bill from borrowing funds to pay for the expenses of running the business, or to acquire other income-producing assets or investments, this expense is generally allowed as a tax deduction for the relevant year.

For business taxpayers under the accruals accounting method, a claim can be made for the calculated interest liability to the end of the income year (usually June 30), provided the interest on the debt accrues on a daily basis (which would usually be the case).

Deductions for interest incurred

The availability of deductions for interest are typically affected by the following factors:

- interest must have a sufficient connection with the income earning activities of the taxpayer
- interest on a new loan is deductible if the new loan is used to repay an existing loan, which, at the time of the second loan, was used to produce assessable income or as part of a business to produce assessable income
- interest on borrowings will not continue to be deductible if the borrowings cease to be employed in the borrower's business or for some income producing activity, or which are used to earn exempt income
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- the character of the interest will generally be determined by the use to which the borrowed funds are put
- the "rule of 78" may be used in limited circumstances to calculate the interest component of instalments paid under a fixed term loan or extended credit transaction
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How this works

In the 2015-16 income year, Company ABC has an aggregated turnover of $9 million. In the 2016-17 income year, its aggregated turnover increased to $11 million.

Therefore, for the 2016-17 income year, Company ABC will have:

- A corporate tax rate of 30% (having regard to its aggregated turnover of $11 million in the 2016-17 income year)
- A corporate tax rate for imputation purposes of 27.5% (based on an aggregated turnover of $9 million in the 2015-16 income year), and
- A corporate tax gross-up rate of 2.64 — that is, (100% - 27.5%)/27.5%.
- As a result, if Company ABC makes a distribution of $100 in the 2016-17 income year, the maximum franking credit that can be attached to the distribution is $37.88 — that is, $100/2.64.

Possible broader impact on shareholders

Companies will benefit from the rate cuts provided that the funds are retained. However the tax burden will be shifted to the shareholder upon distribution of a franked dividend.

Australian resident shareholders will pay more top-up tax on dividends received from companies eligible for the tax cuts as the company tax rate decreases.

Ultimately, the total tax liability on the company's pre-tax profits will still be at the shareholder's marginal rate, but a greater proportion of the burden will sift from the company to the shareholder over time. As the table below shows, the net cash received in relation to the dividend will remain the same.

Company aggregated turnover below $50m	2015	2030
Company pre-tax profit	$100	$100
Company tax rate	30%	25%
Franked dividend received	$70	$75
Franked credit (100% franked)	**$30**	**$25**
Total assessable	$100	$100
Gross tax payable (marginal rate 37%)	$37	$37
Less: franking credits	($30)	($25)
Top-up tax payable	$7	$12
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The sale of a business may be GST exempt if the enterprise is deemed to be a "going concern" — which refers to an enterprise's ability to continue trading. The ATO says a supply of a going concern occurs when:

- "a business is sold, and that sale includes all of the things that are necessary for the business to continue operating", and
- the business is carried on, "up until the day of sale".

The GST exemption has its advantages — a buyer of a business does not have to find extra funds to cover an additional amount to cover GST that is added to the purchase price. And while the buyer is entitled to get the tax back via the input tax credit system, this cannot happen until some time after the completion of the transaction. It should also be remembered that while the GST will eventually be refunded, any stamp duty that is payable on the sale of a business will include the amount for GST.

What are the requirements for the exemption?

Business owners may be aware of the existence of a GST exemption but not completely understand the way it operates. The GST legislation says that the sale of a going concern will be GST-free if:

- the sale is "for consideration"
- the purchaser "is registered, or required to be registered" for GST, and
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The sale of business contract will usually specify that the business (that is, the "supply") is a going concern when the contracts are exchanged. This is critical, because it shows that all parties to the sale acknowledge that the business is a going concern.

A vendor is required to supply "all of the things that are necessary" for the continued operation of the enterprise. This does not mean everything that is owned by the business. It does however mean those things without which the enterprise could not function. Generally, this includes the necessary assets such as premises, plant and equipment and customer contracts. It can also include arrangements such as ongoing advertising.

The legislation requires the vendor to carry on the business "up until the day of sale", with the business deemed to be transferred on the date on which "effective control and possession" of the business is handed over to the buyer. While this date generally refers to the settlement date, "the day of sale" may occur before or after the settlement date.

The tax liability risk (in case the ATO does not view the sale as a supply of a "going concern") ultimately lies with the seller, as it is the "supplier" in any transaction that is required to remit GST to the ATO.

Some vendors seek to avoid this tax liability risk related to the business by including a clause in the sale contract requiring the buyer to indemnify the vendor for any GST that may be payable in the event

that the ATO does not view the transaction as one of a going concern.

Business costs, and the deductibility of interest expenses

If a business racks up an interest bill from borrowing funds to pay for the expenses of running the business, or to acquire other income-producing assets or investments, this expense is generally allowed as a tax deduction for the relevant year.

For business taxpayers under the accruals accounting method, a claim can be made for the calculated interest liability to the end of the income year (usually June 30), provided the interest on the debt accrues on a daily basis (which would usually be the case).

Deductions for interest incurred

The availability of deductions for interest are typically affected by the following factors:

- interest must have a sufficient connection with the income earning activities of the taxpayer
- interest on a new loan is deductible if the new loan is used to repay an existing loan, which, at the time of the second loan, was used to produce assessable income or as part of a business to produce assessable income
- interest on borrowings will not continue to be deductible if the borrowings cease to be employed in the borrower's business or for some income producing activity, or which are used to earn exempt income
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- the character of the interest will generally be determined by the use to which the borrowed funds are put
- the "rule of 78" may be used in limited circumstances to calculate the interest component of instalments paid under a fixed term loan or extended credit transaction
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How this works

In the 2015-16 income year, Company ABC has an aggregated turnover of $9 million. In the 2016-17 income year, its aggregated turnover increased to $11 million.

Therefore, for the 2016-17 income year, Company ABC will have:

- A corporate tax rate of 30% (having regard to its aggregated turnover of $11 million in the 2016-17 income year)
- A corporate tax rate for imputation purposes of 27.5% (based on an aggregated turnover of $9 million in the 2015-16 income year), and
- A corporate tax gross-up rate of 2.64 — that is, (100% - 27.5%)/27.5%.
- As a result, if Company ABC makes a distribution of $100 in the 2016-17 income year, the maximum franking credit that can be attached to the distribution is $37.88 — that is, $100/2.64.

Possible broader impact on shareholders

Companies will benefit from the rate cuts provided that the funds are retained. However the tax burden will be shifted to the shareholder upon distribution of a franked dividend.

Australian resident shareholders will pay more top-up tax on dividends received from companies eligible for the tax cuts as the company tax rate decreases.

Ultimately, the total tax liability on the company's pre-tax profits will still be at the shareholder's marginal rate, but a greater proportion of the burden will sift from the company to the shareholder over time. As the table below shows, the net cash received in relation to the dividend will remain the same.

Company aggregated turnover below $50m	2015	2030
Company pre-tax profit	$100	$100
Company tax rate	30%	25%
Franked dividend received	$70	$75
Franked credit (100% franked)	**$30**	**$25**
Total assessable	$100	$100
Gross tax payable (marginal rate 37%)	$37	$37
Less: franking credits	($30)	($25)
Top-up tax payable	$7	$12
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The sale of a business may be GST exempt if the enterprise is deemed to be a "going concern" — which refers to an enterprise's ability to continue trading. The ATO says a supply of a going concern occurs when:

- "a business is sold, and that sale includes all of the things that are necessary for the business to continue operating", and
- the business is carried on, "up until the day of sale".

The GST exemption has its advantages — a buyer of a business does not have to find extra funds to cover an additional amount to cover GST that is added to the purchase price. And while the buyer is entitled to get the tax back via the input tax credit system, this cannot happen until some time after the completion of the transaction. It should also be remembered that while the GST will eventually be refunded, any stamp duty that is payable on the sale of a business will include the amount for GST.

What are the requirements for the exemption?

Business owners may be aware of the existence of a GST exemption but not completely understand the way it operates. The GST legislation says that the sale of a going concern will be GST-free if:

- the sale is "for consideration"
- the purchaser "is registered, or required to be registered" for GST, and
- "the supplier and the recipient have agreed, in writing, that the supply is of a going concern".

The sale of business contract will usually specify that the business (that is, the "supply") is a going concern when the contracts are exchanged. This is critical, because it shows that all parties to the sale acknowledge that the business is a going concern.

A vendor is required to supply "all of the things that are necessary" for the continued operation of the enterprise. This does not mean everything that is owned by the business. It does however mean those things without which the enterprise could not function. Generally, this includes the necessary assets such as premises, plant and equipment and customer contracts. It can also include arrangements such as ongoing advertising.

The legislation requires the vendor to carry on the business "up until the day of sale", with the business deemed to be transferred on the date on which "effective control and possession" of the business is handed over to the buyer. While this date generally refers to the settlement date, "the day of sale" may occur before or after the settlement date.

The tax liability risk (in case the ATO does not view the sale as a supply of a "going concern") ultimately lies with the seller, as it is the "supplier" in any transaction that is required to remit GST to the ATO.

Some vendors seek to avoid this tax liability risk related to the business by including a clause in the sale contract requiring the buyer to indemnify the vendor for any GST that may be payable in the event

that the ATO does not view the transaction as one of a going concern.

Business costs, and the deductibility of interest expenses

If a business racks up an interest bill from borrowing funds to pay for the expenses of running the business, or to acquire other income-producing assets or investments, this expense is generally allowed as a tax deduction for the relevant year.

For business taxpayers under the accruals accounting method, a claim can be made for the calculated interest liability to the end of the income year (usually June 30), provided the interest on the debt accrues on a daily basis (which would usually be the case).

Deductions for interest incurred

The availability of deductions for interest are typically affected by the following factors:

- interest must have a sufficient connection with the income earning activities of the taxpayer
- interest on a new loan is deductible if the new loan is used to repay an existing loan, which, at the time of the second loan, was used to produce assessable income or as part of a business to produce assessable income
- interest on borrowings will not continue to be deductible if the borrowings cease to be employed in the borrower's business or for some income producing activity, or which are used to earn exempt income
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- the character of the interest will generally be determined by the use to which the borrowed funds are put
- the "rule of 78" may be used in limited circumstances to calculate the interest component of instalments paid under a fixed term loan or extended credit transaction
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Company tax franking implications

The recent cut to the tax rate for incorporated businesses that turnover less than $50 million a year, while generally welcomed, can bring with it some important considerations when it comes to distributing franked dividends.

The rate change to 27.5% is to be staggered, starting with companies that turnover up to $10 million a year, with retrospective effect from July 1, 2016. It will then apply to companies turning over up to $25 million in 2017-18, and then to $50 million turnover companies for 2018-19.

Note: These tax cuts only apply to companies that actively "carry on a business".

From 2016-17, the imputation system will be based on a company's corporate tax rate for a particular income year, worked out having regard to the company's aggregated turnover for the previous year.

This is because a company will not know its aggregated turnover for the year in which it pays a dividend (and therefore its corporate tax rate for the year) until after the end of that year.

How this works

In the 2015-16 income year, Company ABC has an aggregated turnover of $9 million. In the 2016-17 income year, its aggregated turnover increased to $11 million.

Therefore, for the 2016-17 income year, Company ABC will have:

- A corporate tax rate of 30% (having regard to its aggregated turnover of $11 million in the 2016-17 income year)
- A corporate tax rate for imputation purposes of 27.5% (based on an aggregated turnover of $9 million in the 2015-16 income year), and
- A corporate tax gross-up rate of 2.64 — that is, (100% - 27.5%)/27.5%.
- As a result, if Company ABC makes a distribution of $100 in the 2016-17 income year, the maximum franking credit that can be attached to the distribution is $37.88 — that is, $100/2.64.

Possible broader impact on shareholders

Companies will benefit from the rate cuts provided that the funds are retained. However the tax burden will be shifted to the shareholder upon distribution of a franked dividend.

Australian resident shareholders will pay more top-up tax on dividends received from companies eligible for the tax cuts as the company tax rate decreases.

Ultimately, the total tax liability on the company's pre-tax profits will still be at the shareholder's marginal rate, but a greater proportion of the burden will sift from the company to the shareholder over time. As the table below shows, the net cash received in relation to the dividend will remain the same.

Company aggregated turnover below $50m	2015	2030
Company pre-tax profit	$100	$100
Company tax rate	30%	25%
Franked dividend received	$70	$75
Franked credit (100% franked)	**$30**	**$25**
Total assessable	$100	$100
Gross tax payable (marginal rate 37%)	$37	$37
Less: franking credits	($30)	($25)
Top-up tax payable	$7	$12
Net cash received (dividend received less tax payable)	$63	$63

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Selling up your business? Don't forget the "going concern" GST exemption

The concept of a "going concern" exemption for the purposes of the goods and services tax (GST) can still cause confusion when businesses are sold.

The sale of a business may be GST exempt if the enterprise is deemed to be a "going concern" — which refers to an enterprise's ability to continue trading. The ATO says a supply of a going concern occurs when:

- "a business is sold, and that sale includes all of the things that are necessary for the business to continue operating", and
- the business is carried on, "up until the day of sale".

The GST exemption has its advantages — a buyer of a business does not have to find extra funds to cover an additional amount to cover GST that is added to the purchase price. And while the buyer is entitled to get the tax back via the input tax credit system, this cannot happen until some time after the completion of the transaction. It should also be remembered that while the GST will eventually be refunded, any stamp duty that is payable on the sale of a business will include the amount for GST.

What are the requirements for the exemption?

Business owners may be aware of the existence of a GST exemption but not completely understand the way it operates. The GST legislation says that the sale of a going concern will be GST-free if:

- the sale is "for consideration"
- the purchaser "is registered, or required to be registered" for GST, and
- "the supplier and the recipient have agreed, in writing, that the supply is of a going concern".

The sale of business contract will usually specify that the business (that is, the "supply") is a going concern when the contracts are exchanged. This is critical, because it shows that all parties to the sale acknowledge that the business is a going concern.

A vendor is required to supply "all of the things that are necessary" for the continued operation of the enterprise. This does not mean everything that is owned by the business. It does however mean those things without which the enterprise could not function. Generally, this includes the necessary assets such as premises, plant and equipment and customer contracts. It can also include arrangements such as ongoing advertising.

The legislation requires the vendor to carry on the business "up until the day of sale", with the business deemed to be transferred on the date on which "effective control and possession" of the business is handed over to the buyer. While this date generally refers to the settlement date, "the day of sale" may occur before or after the settlement date.

The tax liability risk (in case the ATO does not view the sale as a supply of a "going concern") ultimately lies with the seller, as it is the "supplier" in any transaction that is required to remit GST to the ATO.

Some vendors seek to avoid this tax liability risk related to the business by including a clause in the sale contract requiring the buyer to indemnify the vendor for any GST that may be payable in the event

that the ATO does not view the transaction as one of a going concern.

Business costs, and the deductibility of interest expenses

If a business racks up an interest bill from borrowing funds to pay for the expenses of running the business, or to acquire other income-producing assets or investments, this expense is generally allowed as a tax deduction for the relevant year.

For business taxpayers under the accruals accounting method, a claim can be made for the calculated interest liability to the end of the income year (usually June 30), provided the interest on the debt accrues on a daily basis (which would usually be the case).

Deductions for interest incurred

The availability of deductions for interest are typically affected by the following factors:

- interest must have a sufficient connection with the income earning activities of the taxpayer
- interest on a new loan is deductible if the new loan is used to repay an existing loan, which, at the time of the second loan, was used to produce assessable income or as part of a business to produce assessable income
- interest on borrowings will not continue to be deductible if the borrowings cease to be employed in the borrower's business or for some income producing activity, or which are used to earn exempt income
- interest may still be deductible even if the borrower's business has ceased. This rule can apply to other assessable income-producing activities but would not apply to the derivation of exempt income
- interest may be deductible if incurred prior to a business commencing or assessable income being derived
- the character of the interest will generally be determined by the use to which the borrowed funds are put
- the "rule of 78" may be used in limited circumstances to calculate the interest component of instalments paid under a fixed term loan or extended credit transaction
- penalty interest for early repayment of a loan may be deductible, and
- an interest deduction can be claimed for money borrowed for the business that is used to pay a tax debt.

Companies

Interest costs incurred by companies may be deductible if the money:

- is used to repay share capital to shareholders if that capital was employed as working capital in the company business and is used to derive assessable income, or
- funds the payment of a declared dividend to shareholders where the funds representing that dividend are employed as working capital in the company business and it is used to derive assessable income.
- A deduction is not allowed if the borrowed funds are used to:
- repay share capital to shareholders to the extent it represents bonus shares paid out of an unrealised asset revaluation reserve or other equity account (for example, internally generated goodwill), or
- pay dividends out of unrealised profit reserves.

Borrowing expenses

If costs are incurred to obtain a loan, the costs of arranging it are allowable as a deduction to the extent the loan is used to produce assessable income. Expenses claimable under this heading include:

- legal expenses associated with the mortgage documents
- valuation fees incurred
- procuration fees and mortgage insurance (if any)

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- stamp duty payable on mortgage documents, and
- any other cost items for taking the loan.

If the total cost of these expenses is less than $100, it can be claimed in the income year the expense is incurred. However if more, the claim will need to be spread equally over the lessor of the loan term, or five years commencing from the date the loan was entered into.

If you incur borrowing costs on a number of dates for different facilities you cannot simply add them to the opening balance of your yet-to-be-deducted borrowing costs for that year. It is necessary to do a separate calculation for these new borrowing costs.

Not only but also

When early repayment of a loan occurs, and some of the eligible costs of borrowing have not been claimed, these may be deducted in the year in which the borrowings are paid out. Generally any so-called "rebate" given when a loan is paid out is merely a figure to adjust the interest. Any refund would diminish the final claim for the costs of borrowing.

Note also that mortgage protection insurance for a bank loan used to purchase an income-producing asset is deductible. Penalty interest on early repayment of the loan may also be deductible. The tax law also allows a taxpayer to claim in full the cost of discharging a mortgage where the money was used (whether or not in a business) for producing assessable income. If only part of the borrowings were used for that purpose, apportion the discharge expenses.

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