

## End of financial year tax planning checklist 2013

### Small business entity rules

- Small Business Entities - the small business entity rules apply to a sole trader, partnership, company or trust which has a group turnover of less than \$2M in the previous year, or likely to be less than \$2M in the current year.
- Depreciation Rules - if the asset costs less than \$6,500 it may be written off in full in the year in which it was acquired. The long life small business depreciation asset pool and the general small business pool have been consolidated into a single pool to be written off at 30% (for any new assets acquired 15% in the first year).
- Depreciation – Motor Vehicle – you can choose to use the capital allowance provision to calculate the deduction for a motor vehicle costing \$6,500 or more if you have started to use or installed ready for use for business purposes. The deduction in the first year is \$5,000 + 15% of the residual (cost price less \$5,000).
- Trading Stock Rules For Small Business Entities - small business entities do not have to account for changes in trading stock or prepare a stocktake for tax purposes where the difference between the value of the opening stock and a reasonable estimate of the closing stock is \$5,000 or less.
- Prepaid Expenses - a small business entity taxpayer can claim an immediate deduction for certain prepaid business expenses that satisfy the 12-month rule.

### Deductions

- Prepayments – Small Business Entity - small business entity taxpayers are entitled to a deduction where the relevant services will be wholly provided within 12 months of the date of expenditure, such as office supplies, stationery, rent, advertising, etc.
- Prepayments - Not Defined As Small Business - the prepayment rule for other small businesses applies to business taxpayers with a group turnover of \$2M+.
- Prepayments “Excluded Expenditure” - there is an exemption for payments of “excluded expenditure”. (Please contact us for further details.)
- Interest On Investment Loans - taxpayers who have borrowed money for a non-business investment (e.g. rental property) can check with their lenders to see if they can prepay interest prior to 30 June 2013.
- Staff Bonuses - ensure a cheque has been written prior to 30 June 2013 and PAYG withholding tax deducted.
- Staff Holidays - where practical, encourage staff to take holidays prior to 30 June 2013.
- Superannuation – for the year ending 30th June 2013, concessional contribution limit is \$25,000 per person.

## Our end of year tips

**Prepayments:** if your turnover is under \$2M, consider making any prepayments prior to 30 June 2013.

**Asset purchases:** if your turnover is under \$2M, consider purchasing and having ready for use prior to 30 June 2013 assets you would otherwise acquire soon after year end.

**Superannuation:** contributions up to concessional contribution limits are generally subject to contributions tax of 15%, yet a deduction may be available at the applicable company or individual tax rate, which could be as high as 45%.

"Cash is King!" so update your financial records to 30 June 2013 so you can discuss with us the possible variation of your PAYG instalment due by 28 July 2013.

The 2013 Federal government's budget introduced some items to which you may need to give consideration prior to 30 June 2013. These include:

- The government intends to phase out the medical rebate by 30 June 2019. If a taxpayer does not claim the medical rebate in any one year, the taxpayer may not be eligible to claim the medical rebate in a subsequent year. You may therefore benefit by being in a position to make a claim this year.
- The government has announced that it will remove the discount which currently applies to upfront and voluntary payments of HELP debts. The removal of the discount will apply from 1 January 2014.

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## Deductions (cont.)

- Self-Employed Persons can obtain a superannuation deduction on the same basis as that adopted for employees.
- Salary Sacrifice Arrangements can be utilised to maximise superannuation contributions subject to the overall deduction limits.
- Non-Concessional Contributions can be made up to \$150,000 per annum or a total of \$450,000 over a 3-year period for those eligible.
- Superannuation Minimum Contributions have to be paid to all eligible employees who are paid at least \$450 gross per month.
- Superannuation Co-contribution - the government will potentially match dollar for dollar super contributions made by lower income earners from their after-tax salary up to a maximum of \$1,000.
- Interest on borrowings can be claimed on loans taken out for business purposes or to buy income producing properties and/or shares.
- Repairs & Maintenance - ensure that the work has been completed prior to 30 June 2013.
- Directors' Fees - ensure cheques are drawn prior to 30 June 2013 and that PAYG Withholding Tax is deducted.
- Travel Deductions:
  - Overseas – prepare a full itinerary and diary.
  - Local – more than 6 nights and you are required to maintain a diary.
- Taxation Advice - fees payable to an accountant or registered tax agent for taxation advice can be claimed.
- Motor Vehicle Expenses - there are 4 methods available to calculate tax deductions for work related motor vehicle expenses:
  1. cents per kilometre method;
  2. logbook method;
  3. 12% of the original value method; or
  4. 1/3 of actual expense method.
- Expense Substantiation - ensure that you can justify all employment-related expense amounts incurred.
- Depreciation - review capital expenditure and ensure you claim depreciation at the highest legally allowable amount.
- Donations - any promised tax deductible donations should be made prior to 30 June 2013.
- Building Allowance - the construction costs of income producing buildings may be written off at 2½% or 4%, depending on date of construction.
- Borrowing Costs can be claimed over the shorter of five years or the term of the loan.
- Entertainment is not deductible unless it is provided as a fringe benefit and Fringe Benefits Tax has been paid.



## Research & Development

Companies that incur research and development costs can claim additional taxation benefits. There are two main categories:

1. companies with turnovers under \$20M; and
  2. companies with turnovers \$20M+.
- Companies must register their research and development projects with AusIndustry by 30 April 2014 or the date of lodgement of the company's income tax return, whichever is the earlier.
- Companies with turnovers under \$20M will receive the benefit of a research and development 45% refundable tax offset, calculated at 45% of the eligible research and development expenditure. The rebate can be paid to the company by the Australian Taxation Office within 30 days of the company lodging its income tax return.
  - Companies with turnovers \$20M+ will receive a 40% non-refundable tax offset.

If you require further information on the treatment of research and development expenditure, please contact us on 02 6686 3000.

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## Deductions (cont.)

- Gifts - ensure that the payment is made to a tax-deductible charity on or before 30 June 2013.
- Property Owners' can claim a number of expenses against rental income, including, but not limited to, agents' fees, repairs & maintenance, travel and accommodation for inspection of the investment property, interest on loans borrowed for the property acquisition, etc.
- Negative Gearing - the net loss, which may include interest, borrowing costs, etc, may be deductible.
- Audit Fees are deductible if there is a contract that creates a presently existing liability before 30 June 2013.
- Salary Packages - ensure that salary packages for 2013/14 are negotiated and documented prior to 30 June 2013.
- Working From Home Expenses can be claimed for working from home (as distinct from having a home office). However, you could be subject to capital gains tax when you subsequently sell the property.
- Expenses For Shareholding Investments - expenses incurred in gaining income from shares are a tax deduction.
- Legal Costs - review any legal costs that have been incurred. If the legal costs relate to regular business operations, e.g. debt collections, separate them from costs relating to capital items which are not claimable for income tax purposes.
- Luxury Car Tax is 33% and applies to the GST inclusive value in excess of \$59,133 (including GST). The Luxury Car Tax for "fuel efficient vehicles" applies from a cost of \$75,375.

## Employment issues

- Payment Summaries have to be prepared and sent to all employees by 14 July each year.
- PAYG Withholding Tax - annual summary due 14 August to ATO.
- Payroll Tax (if you are liable) - you have to prepare a reconciliation of total payroll for the year showing the total amount of payroll tax payable and then reconcile this with the remittances that you have forwarded on a monthly basis.
- Work Cover Declaration is due 31 August certifying wages paid for year ending 30 June 2013.

## Super funds

- Contributions to superannuation funds are taxed at 15% of the contribution.
- Earnings made in a superannuation fund are taxed at 15% and paid by the superannuation fund.
- For people 60 years or over who have started drawing a pension, payments from the superannuation fund are, in the majority of cases, tax-free.
- Generally, moneys invested in superannuation funds cannot be accessed until 55 years of age.



## Stock

- Stock On Hand - review stocktake list as at 31 May 2013. Determine whether to conduct "sales" prior to 30 June 2013. Conduct stocktake as at 30 June 2013. If you are conducting regular "rolling" stocktakes throughout the year, it may not be necessary to conduct a stocktake as at 30 June 2013. Stocktaking may not be necessary if you are a small business entity.
- Value Of Stock - stock can be valued at different individual methods for each item of stock:
  1. Cost;
  2. Sales Value; or
  3. Lower of Market Value or Replacement Cost.
- Obsolete Stock - identify any obsolete stock and decide whether to clear or dump that stock prior to stocktake.

## Assets

Fixed Assets - determine if there are any benefits in scrapping any fixed assets to obtain the tax write off prior to 30 June 2013.

## Building & Construction Industry

You have to be able to prepare a Reportable Payments Report to submit to the ATO, showing the payments you've made to each contractor for the year ended 30 June 2013. Your return has to be lodged by 20 July 2013.

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## Income issues

- Bad Debts Recovered (on an accruals basis) - if a debtor, who had been written off as a bad debt and claimed as a tax deduction for the amount of the bad debt, subsequently pays any part of the amount owing, you have to bring the amount paid to account as assessable income in the year of recovery.
- Deferring Livestock & Produce Sales - farmers can defer livestock and produce sales until after 30 June 2013. However, if you are a farmer you need to assess whether you will suffer price reductions because of the decision to defer sales.
- Income Splitting can be highly tax effective, especially if investments have been placed in the name of a lower income earner. This can be applicable where a spouse is not working and the income in the spouse's hands would therefore be taxed at a lower rate.
- Interest Earned - declare interest earned on bank accounts, loans, etc.
- Employee Share Schemes - members of employee share schemes should ensure that any income earned is included in your income tax return.
- Qualifying Employee Share Schemes - scheme formed before 1 July 09 - Any discount on the shares is subject to taxation. If the scheme qualifies under the Employee Share Scheme Rules, the employee can choose when they include the discount in their assessable income. If the employee elects to include the discount benefit in their tax return for the year of receipt of the benefit, they are eligible for an exemption of the first \$1,000 of the discount.
- Scheme Formed After 1 July 09 - discounts on Employee Share Schemes are taxed upfront or on a deferred basis. For 'qualifying' schemes, if the employee is earning less than \$180,000 taxable income plus reportable fringe benefits, reportable super contributions and total investment losses, then the employee can claim a \$1,000 exemption from the inclusion of the assessable discount.
- Government Grants - if your business has received a grant from a government department, it is most likely paid to you on the basis that it is taxable income and therefore you need to disclose in your tax return the receipt of the government grant. If you are lodging your income tax return on a cash basis, this highlights the desirability of ensuring that all of the government grant funds have been expended on tax-deductible items prior to 30 June 2013 (if possible).

## CGT

- Matching Capital Losses and Capital Gains - capital losses are not directly deductible. Capital losses have to be offset against any capital gains generated during that financial year.
- 50% CGT Discount - check your eligibility for the general 50% CGT discount for individuals. If small business operators can meet the \$6M net value asset or have turnover less than \$2M, you might be entitled to further CGT concessions.
- "Wash Sales" - the ATO has issued a ruling where shares, in companies listed on the Stock Exchange, are sold to crystallise the capital loss and then shortly thereafter the taxpayer, or an associate of the taxpayer, purchases shares in that corporation on the Australian Stock Exchange.

## Companies

- Franking Account - review your company's dividend payments and franking profile before year-end to ensure sufficient franking credits are available.
- Company Loans - the law requires that the loan to the shareholder is properly documented. If there is no security offered, the term of the loan should not exceed 7 years. If security is offered, the loan should not exceed 25 years. The interest rate charged in 2012/13 is minimum 7.4%. If loans have been made to shareholders that have not been supported by properly documented loan agreements, then ATO can treat payments as being dividends assessable to the shareholder.
- Personal Service Income (PSI) - taxation laws include measures that are designed to limit the deductions available to certain contractors, whether operating as a sole-trader or through a company, trust or partnership; these are known as the PSI measures. A taxpayer, who meets certain specified tests, will be treated as carrying on a personal services business and will be able to claim a wider range of deductions. If you are operating a personal service business you need to be aware of the ATO's strict approach to income retention and income splitting.
- Non-Commercial Losses - for a business to be commercial under the "non-commercial losses tests", it needs to meet certain prescribed tests. If not, any losses arising from the activities have to be carried forward and offset in a later year against future income from the same type of source.

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## Personal planning

- Zone Offset - record the number of days you spend in Zone A or B, especially if you live in Zone B but spend some time in Zone A during the year.
- Personal Insurance Payments - premiums for Sickness and Accident Cover are tax deductible. Payments can be made by the employer without incurring FBT.
- Home Office Expenses - if you use an area in your home, you can claim the expenses of a home-office.
- Utilising Tax Free Threshold - every adult taxpayer has a tax-free threshold of \$18,200. If a taxpayer is verging on losses, consideration should be given to the decision being made in relation to the valuation of stock, bringing forward or delay of sales etc., to utilise the tax-free threshold otherwise it will be lost forever.
- Tax Offsets - there are a number of tax offsets available within the income tax legislation.
- Work-Related Expenses - items such as travel, uniforms, laundry of clothes, subscriptions, union fees and self-education.
- Dividends, Interest, Managed Funds Distributions, etc - the ATO matches information provided in tax returns with information received from external sources, such as public companies, banks, managed funds etc.
- End of Year Tax Schemes - the ATO produces product rulings on various investment products that are marketed particularly around 30 June each year. To avoid confrontation with the ATO, it is best to consider investing in products that have obtained a product ruling. These product rulings are not a guarantee or government endorsement on the likely success, or profitability, of the investment.
- Salary Packaging can also assist in the minimisation of income tax, particularly in the areas of voluntary superannuation contributions and acquisition of assets that are not subject to FBT, such as supply of a motor vehicle. Your employer is required to report the value of fringe benefits on your payment summary. That may have an effect on other government payments you receive.
- Superannuation Contributions - special concessions are available to low income or non-working spouses relative to superannuation contributions.
- Medical Expenses - if your medical expenses exceed \$2,120, you can claim a tax rebate calculated at 20% of the excess of \$2,120.
- Wage/Salary Earners should review all of the items under Personal Planning and, in addition, give consideration to property income and expenses. If the taxpayer has a rental property, all income from a rental property should be declared. General expenses can include real estate agents fees; building allowance (can be written off at 2.5% or 4% depending on construction date); depreciation of fixtures, fittings, plant and equipment; share of depreciation of common property in a strata titled property; repairs and maintenance; pest control; interest on monies borrowed for investment in the property; bank charges on the property bank account; cleaning; electricity; rates; land tax; insurance and travel for inspection trips by the owner apportioned for partly private travel.

## Cont.

- Work-Related Motor Vehicle Expenses - under 5,000 kilometres calculated at the rate advised by the Australian Taxation Office for the type of vehicle used.
- Managed Investment Schemes - we recommend having a meeting with us prior to committing to a Managed Investment Scheme (MIS).

## Trust Distributions

The ATO will be enforcing the full meaning of the law which is that trust distributions have to be made by the 30 June each year. The ATO has indicated it will be doing spot checks to ensure distribution minutes have been prepared and signed prior to 30 June 2013, setting out the distribution of the income of the trust.

If you have any questions relative to this, please contact us on 02 6686 3000 at your earliest opportunity so a decision can be made on the trust distribution so a meeting of the trustees can be held and a minute prepared confirming the decision of the trustees relative to the trust distributions.

## Changes from 1 July 2013

Notification of superannuation payments – from 1 July 2013, the government requires you to advise employees, on their payslips, when you have paid their super contributions to their fund.

If you have any queries on any other items not discussed in this newsletter, or you have general matters you'd like to discuss with us relative to your tax affairs for year ending 30 June 2013, contact us on 02 6686 3000 in the next couple of weeks so that a convenient time for a meeting can be arranged.

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