

## 2016 Financial year coming to and end

Our special factsheet contains many of the items you may encounter as part of your end of financial year deliberations.

It will assist you in identifying items that you might like to discuss with us. This factsheet does not include any of the items contained in the Australian government's Budget for 2016/17 as the Budget has not yet been approved by Parliament due to the current election.

### End of year tips

#### Prepayments

If your turnover is under \$2 million, consider any prepayments prior to 30 June 2016.

#### "Cash is King!"

Update your financial records to 30 June 2016 so you can discuss with us the possible variation of your PAYG instalment due by 28 July 2016.

#### Federal Budget not passed

The following is a summary of some of the key issues contained in the Federal Budget 2016/17 that has been submitted to the House of Representatives, but has not yet been passed due to the current election campaign.

- Company tax rate for small/medium businesses to reduce by 1% to 27.5% from 1 July 2016. Applicable to companies with turnovers less than \$10 million.
- Superannuation changes include:
  - increase in tax on superannuation contributions for taxpayers earning over \$250,000 per annum
  - the government is proposing a life time non-concessional superannuation contribution cap of \$500,000
  - the government proposes lowering the superannuation contribution cap to \$25,000 per annum for all people, irrespective of age
- The small business instant asset write-off of expenditure up to \$20,000 is proposed to be extended to businesses with turnovers of less than \$10 million
- From 1 July 2016 unincorporated businesses turning over less than \$5 million would be eligible for 8% personal income tax "discount" (currently 5%). The unincorporated tax discount will remain capped at \$1,000.



### Taxing of trading income

There are two forms of taxing trading income, depending on whether the business is assessed on:

- A "cash" basis - businesses are assessed when payment is received;
- An "accruals" basis - businesses are assessed when a legally recoverable debt arises, usually at the point of invoicing.

### How can Collins Hume help?

If you would like assistance with identifying how these factors are likely to affect your own tax planning, please feel free to give us a call on 02 6686 3000 to arrange a time to meet so that we can discuss their impact on your particular circumstances. We can then determine whether you need to make any changes to your existing arrangements.

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## Small business entities

**Aggregated turnover of less than \$2 million – “aggregated turnover” is calculated on a group basis and must be “business income”.**

The small business entity rules apply to a sole trader, partnership, company or trust which has a group turnover of less than \$2 million in the previous year, or likely to be less than \$2 million in the current year.

### Depreciation Rules

A small business taxpayer can immediately write-off the cost of new assets, including motor vehicles costing up to \$20,000. If the assets (including motor vehicles) cost more than \$20,000, the asset can be placed into the Small Business Simplified Depreciation Pool, depreciated at 15% in the first income year and 30% each income year thereafter.

### Prepayments

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.

### General Deductions

- Staff bonuses – ensure a cheque has been written prior to 30 June 2016 and PAYG withholding tax deducted.
- Staff holidays, where practical, encourage staff to take holidays prior to 30 June 2016.
- Superannuation contributions for the year ending 30 June 2016 can be paid for any eligible person:
  - aged under 49 years - \$30,000
  - aged 49 years to under 59 years - \$35,000
  - aged 59 years and over - \$35,000 (subject to the "work-test" from age 65)
- 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 \$180,000 per annum or a total of \$540,000 over a 3-year period (for those aged under 65).
- Repairs & Maintenance – ensure that work is completed prior to 30 June 2016.

- Directors' Fees – ensure cheques are drawn prior to 30 June 2016 and that PAYG Withholding Tax is deducted.
- Travel Deductions:
  - Overseas? Prepare a full itinerary and diary.
  - Local? 6+ nights away you are required to maintain a diary.
- Motor Vehicle Expenses – there are 2 methods available to calculate tax deductions for work-related motor vehicle expenses:
  - cents per kilometre @ 66 cents per kilometre
  - with the logbook method you can claim your actual business kilometres as a percentage of the total kilometres that the motor vehicle has travelled and to then utilise that percentage as the claimable percentage of the total motor vehicle expenses incurred.
- Donations – any promised tax deductible donations should be made prior to 30 June 2016.
- Borrowing costs can be claimed over the shorter of 5 years or the term of the loan.
- Entertainment is not deductible unless it is provided as a fringe benefit and FBT has been paid.
- Gifts – ensure payment is made to a tax-deductible charity on or before 30 June 2016.
- Audit fees are deductible if there's a contract that creates a presently existing liability before 30 June 2016.

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## Small business entities

- Research & Development for companies with turnovers under \$20 million – a company will receive the benefit of a research and development 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 lodgement of the company's tax return if the company elects to receive this payment in the company's income tax return. It's important to note that for research and development claims in respect of the year ending 30th June 2016, the company must register with AusIndustry by 30 April 2017 or the date of lodgement of company's income tax return, whichever is the earlier.
- Salary Packages – ensure they are negotiated and documented prior to 30 June 2016.
- Legal Costs – review any 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 \$63,184 (including GST). The Luxury Car Tax for "fuel efficient vehicles" applies from a cost of \$75,375.

### Stock

- Trading Stock Rules – 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.
- Stock On Hand – review stocktake list as at 31st May 2016 or early June 2016. Determine whether to conduct "sales" prior to 30th June 2016. Conduct stocktake as at 30th June 2016. If you're conducting regular "rolling" stocktakes throughout the year, it may not be necessary to conduct a stocktake as at 30th June 2016. Stocktaking may not be necessary if you're a small business entity.
- Value Of Stock can be valued at different individual methods for each item of stock:
  - Cost
  - Sale Value
  - Lower of Market Value or Replacement Cost
- Obsolete Stock – identify any and decide whether to clear or dump that stock prior to stocktake.

### Fixed Assets

Determine if there are any benefits in scrapping any fixed assets to obtain the tax write off prior to 30 June 2016.

### Employment Issues

- Payment Summaries must 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 2016.

### 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.

*Next: Income Issues (over)*

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# Small business entities

## Income Issues

### Government Grants

If your business has received a grant from a government department, it's most likely paid to you on the basis that it's 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 2016 (if possible).

### 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", the business needs to meet certain prescribed tests. If the tests are not met, 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. If you have non-commercial losses, please contact us for advice on the treatment of the losses in 2015/16.

### Trust Distributions

The ATO has indicated that it will be enforcing the full meaning of the law, whereby trustee distribution/resolutions have to be made by 30 June each year.

## Your end of financial year review

If you have any queries on any other items not discussed in our factsheet, or you have general matters that you'd like to discuss with us regarding your tax affairs for the year ending 30 June 2016, please contact us on 02 6686 3000 so that a convenient time for a meeting can be arranged.

For further details on the Federal Budget, which has been tabled in the House of Representatives, please visit our [blog](#) for more in-depth articles.

*The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained by calling Collins Hume on 02 6686 3000.*

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