

BusinessPlus+ Newsletter



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Issue No 91 – End Of Year Tax Planning – June 2013

The 2013 Financial Year Is Coming To An End

This special Business Plus+ newsletter contains commentary on many of the items you may encounter, as part of your end of financial year deliberations. Please contact us for a copy of our End of Year Tax Planning paper and checklist. Both will assist you in identifying items that you might like to discuss with us.

End Of Year Tips

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

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

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

- The government intends to phase out the medical rebate by 20th June 2019. If a taxpayer does not claim the medical rebate in any one year, the taxpayer will not be eligible to claim the medical rebate in a subsequent year. This could mean that it could be beneficial to ensure your medical expenses, for 30th June 2013, exceed \$2,120.
- The government has announced that it will remove the discount which currently applies to upfront and voluntary payments of Higher Education Loan Program (HELP). The removal of the discount will apply from 1st January 2014.

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; or
- "accruals" basis - businesses are assessed when a legally recoverable debt arises, usually at the point of invoicing.

End Of 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 or more.
- 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 30th June 2013.
- Staff Bonuses - ensure a cheque has been written prior to 30th June 2013 and PAYG withholding tax deducted.
- Staff Holidays - where practical, encourage staff to take holidays prior to 30th June 2013.
- Superannuation – for the year ending 30th June 2013, superannuation contributions can be paid for any person up to \$25,000.
- Self-Employed Persons - self-employed persons can obtain a superannuation deduction on the same basis as that adopted for employees.
- Salary Sacrifice Arrangements - salary sacrifice arrangements can be utilised to maximise superannuation contributions subject to the overall deduction limits.
- Non-Concessional Contributions - non-concessional contributions can be made up to \$150,000 per annum or a total of \$450,000 over a 3-year period.
- Superannuation Minimum Contributions - superannuation contributions have to be paid to all eligible employees who are paid at least \$450 gross per month.
- Superannuation Co-contribution - the government will give lower income earners \$1 for each \$1 they contribute to superannuation from their after-tax salary up to a maximum of \$1,000.
- Interest On Loan Funds - interest 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 30th June 2013.
- Directors’ Fees - ensure cheques are drawn prior to 30th June 2013 and that PAYG Withholding Tax is deducted.
- Travel Deductions:
 - Overseas – prepare a full itinerary & diary.
 - Local – more than 6 nights 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:
 - cents per kilometre method;
 - logbook method;
 - 12% of the original value method; or
 - 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 30th 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 - borrowing costs can be claimed over the shorter of five years or the term of the loan.
- Entertainment - 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 can claim additional taxation benefits. There are two components:
 - companies with turnovers under \$20M; and
 - companies with turnovers over \$20M.Companies must register their research and development projects with AusIndustry by 30th April 2014 or the date of lodgement of the company’s income tax return, whichever is the earlier.
 - Companies *with turnovers under \$20M* - the company 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 over \$20M* - the company will receive a 40% non-refundable tax offset.If you require further information on the treatment of research and development expenditure, please contact us.
- Gifts - ensure that the payment is made to a tax-deductible charity on or before 30th June 2013.
- Property Owners’ Deductions - property owners can claim a number of expenses against rental income, including, but not limited to, agents’ fees, repairs & maintenance, travel & 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 - deductible if there is a contract that creates a presently existing liability before the 30th June 2013.
- Salary Packages - ensure that salary packages for 2013/14 are negotiated and documented prior to 30th June 2013.
- Working From Home Expenses - 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 - the 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.

Deductions On "Accruals" Basis - (Subject To Income Tax Return Being Lodged On An "Accruals" Basis)

- Fringe Benefits Tax Payment (Accruals Basis) - if a Fringe Benefit Tax instalment is due on 21st July 2013, it can be accrued and claimed as a tax deduction in the year ending 30th June 2013.
- Commissions Owing (Accruals Basis) - where employees or another business are owed commission by your business for services rendered up to 30th June 2013, the accrued amount can be claimed as a tax deduction at 30th June 2013.
- Bad Debts (Accruals Basis) - actually write-off any bad debts prior to 30th June 2013 and prepare minutes authorising the write-off.
- Interest (Accruals Basis) - any accrued interest outstanding on a business loan, that has not been paid at 30th June 2013, can be claimed as a tax deduction at 30th June 2013.
- Salaries & Wages (Accruals Basis) - the accrued expense for the days that employees have worked, but not paid at 30th June 2013, can be claimed as a tax deduction at 30th June 2013.
- Commercial Bills (Accruals Basis) - where the term of a Commercial Bill expires beyond the 30th June 2013, the discount applicable to the period up to 30th June 2013 can be claimed as a tax deduction.
- Rent (Accruals Basis) - if rent is in arrears, the part that is owed up to 30th June 2013 can be claimed as a tax deduction.

Stock

- Stock On Hand - review stocktake list as at 31st May 2013. Determine whether to conduct "sales" prior to 30th June 2013. Conduct stocktake as at 30th June 2013. If you are conducting regular "rolling" stocktakes throughout the year, it may not be necessary to conduct a stocktake as at 30th 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:
 - Cost;
 - Sales Value; or
 - 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 30th June 2013.

Employment Issues

- Payment Summaries - payment summaries have to be prepared and sent to all employees by 14th July each year.
- PAYG Withholding Tax - annual summary due 14th August to Australian Taxation Office.
- 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 - a Work Cover Declaration is due by 31st August certifying wages paid for year ending 30th June 2013.

Superannuation 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.

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 30th 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 - 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 - if you are a member of an employee share scheme you should ensure that any income earned is included in your income tax return.
- Qualifying Employee Share Schemes - scheme formed before 1st July 2009 - 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 1st July 2009 - the discounts on Employee Share Schemes are taxed either 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 superannuation 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 30th June 2013 (if possible).

Companies

- **Franking Account** - a company's dividend payments and franking profile should be reviewed 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 to be charged during 2012/13 is a minimum of 7.4%. If loans have been made to shareholders that have not been supported by properly documented loan agreements, then the Taxation Office can treat these payments as being dividends that are assessable to the shareholder.
- **Personal Service Income** - 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 Personal Services Income (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 Australian Taxation Office'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.

Capital Gains Tax Items

- **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% Capital Gains Tax Discount** - you should check your eligibility for the general 50% capital gains tax discount for individuals. If you are a small business operator and are able to meet the \$6M net value asset or have turnover of less than \$2M, you might be entitled to further capital gains tax concessions.
- **"Wash Sales"** - the ATO has issued a ruling that relates to "wash sales". This is a situation 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.

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 Fringe Benefits Tax.
- **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 30th 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** - 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 fringe benefit tax, 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** - 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 date of construction); 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.
- **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** - it is recommended that you have a meeting with your professional accountant prior to committing to a Managed Investment Scheme (MIS) investment.

Trusts

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

If you have any questions relative to this, please contact us 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.

Building and Construction

- **Building and Construction Industry** – if you're in the building and constructions 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 30th June 2013. The return has to be lodged by 20th July 2013.

Changes from 1st July 2013

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

End Of Financial Year Review

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

Business Review 2012/13

Now is an ideal time to talk to us about business development strategies for your business, particularly relating to:

- a business health check
- business evaluation workshop
- cashflow management, including:
 - debtors
 - stock
 - work in progress reviews
- business plan development for 2013/14
- budgets & cashflow forecasts for 2013/14
- leadership review
- succession planning
- buying a business - if you're contemplating expanding your business operations
- selling a business - if you're planning on selling your business
- bank's/lender's review
- gross profit analysis review
- sales targets and calculations of "what ifs"
- surviving in difficult times
- accessing government grants

If you'd like us to undertake a business review on your business, please contact us as soon as possible.

TAX TIME APPOINTMENTS

Appointments fill up fast during the busy tax season. If you have a preferred accountant you'd like to see or a specific time or day you need to make your appointment, please don't leave it until the last moment.

Avoid disappointment: book in today on 1300 35 22 35 to ensure you get to see who you want at the time you want.

An Important Message

While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.



Alan Lewis
Accountants

T 1300 352 235 F 02 4392 4334