YEAR END TAX TIPS

JUNE 2016

SMALL BUSINESS

Check eligibility for small business tax regime

Small businesses (sole traders, partnerships, companies and/ or trusts with a turnover of less than $2 million) may be eligible for a range of tax benefits including immediate write off of assets costing less than $20,000, a 28.5 per cent company tax rate, simplified depreciation, capital gains tax concessions and accounting on a cash basis.

Broadly, the small business must carry on a business and its annual turnover (excluding GST) cannot exceed $2 million. Turnover will also be aggregated to include the annual turnover of certain affiliates and entities connected with the taxpayer.

While meeting the $2 million turnover test automatically entitles small businesses to choose certain concessions such as simplified rules for both tax depreciation and trading stock, it is important to note that additional eligibility tests apply to claim the small-business CGT concessions.

The government has proposed increasing the annual small business threshold to a turnover of $10 million from 1 July 2016. This would normally create a number of year-end tax planning opportunities for businesses with an annual turnover of between $2 million to $10 million, however at the time of writing it is uncertain whether this proposed increase will become law, therefore we suggest that taxpayers be circumspect.

Maximise depreciation deductions

Small businesses can get an immediate tax deduction for nearly all individual assets purchased by 30 June 2016 that cost less than $20,000, to the extent it is used for an income producing purpose and is installed ready for use by the end of the financial year. This measure is due to expire 30 June 2017.

For businesses registered for GST, the $20,000 threshold is calculated on a GST-exclusive basis, but for businesses not registered for GST, the threshold is calculated on a GST-inclusive basis.

A depreciating asset that is not immediately deductible (an asset costing $20,000 or more) will be automatically depreciated at a flat rate of 15 per cent in the year it was bought to the extent the asset is used for income-producing purposes, and is used or installed ready for use by 30 June 2016. The adjustable value of such an asset can be depreciated, on that basis, at 30 per cent in subsequent years.

For those businesses with a turnover of between $2 million to $10 million, they may wish to delay the purchase or delivery of assets costing less than $20,000 until next financial year as such expenditure may then qualify for an immediate deduction.

However given the uncertainty as to whether the small business turnover threshold increase will become law, we suggest that businesses factor that uncertainty into their decision(s) on whether or not to change the timing of asset purchases until the new financial year.

Tax cut for SMEs from 1 July 2016

Normally we would encourage taxpayers to consider taking advantage of a number of year-end tax planning opportunities that a proposed company tax rate cut creates, however it is uncertain whether this proposed cut, especially for companies with a turnover of between $2 million to $10 million will become law, so again we suggest that taxpayers take care.

If you do want to take the risk, the following changes announced in the budget provide a number of tax planning opportunities:

- the proposed reduction in the company tax rate from 28.5 to 27.5 per cent for companies that have an annual turnover of less than $2 million from 1 July 2016
- the proposed reduction in the company tax rate from 30 to 27.5 per cent for companies with a turnover between $2 million to $10 million from 1 July 2016
- the proposed increase in the unincorporated small business tax discount from five to eight per cent on the income tax payable on business income received from an unincorporated entity that meets the relevant small business test, capped to $1,000 per individual.

In particular, eligible businesses can bring forward expenses into this financial year (to receive a higher deduction for such expenses), and delay revenue into the next financial year (as revenue will be subject to a lower tax rate).

As always, care should be taken to ensure that any actions do not breach the tax general anti-avoidance rules or any specific provisions such as the tax prepayment rules.

SMEs should seek professional advice from their CPA Australia-registered tax agent to understand how they may legitimately benefit from the proposed (but uncertain) reduction in the company tax rate, if eligible.

Review salary sacrifice arrangements

Employees can consider salary sacrifice arrangements under which their gross salary may be foregone to obtain either a packaged car for fringe benefits tax (FBT) purposes, or they can make additional superannuation contributions.

A 20 per cent flat rate applies when calculating a car fringe benefit under the statutory-formula method, regardless of how many kilometres the vehicle travels annually. However, there may still be some tax savings in packaging a car under these rules compared to the cost of funding all your car expenses from your net salary.

In addition, under these rules employees who predominantly use a car for work-related travel may be able to obtain tax savings by calculating the FBT paid on the car under the operating-cost method rather than funding their car expenses from their after-tax salary.

Advice should also be obtained from a CPA Australia-registered tax agent as to whether such salary sacrifice arrangements would be tax effective.

Make trust resolutions by 30 June

As always, trustees of discretionary trusts are required to make and document resolutions on how trust income should be distributed to beneficiaries for the 2015-2016 financial year by 30 June.

If a valid resolution is not executed by 30 June, any default beneficiaries under the deed will become presently entitled to trust income and subject to tax (even where they do not receive any cash distribution), or the trustee will be assessed at the highest marginal tax rate on any taxable income derived but not distributed by the trust.

A trustee must be able to show how an effective resolution was made through minutes, file notes or an exchange of correspondence documented before year end. However, the trust's accounts do not need to be prepared by 30 June.

As a corporate trustee may need time to notify its directors that a meeting must be convened to pass and record a resolution, such a notice should be sent out well before the 30 June deadline.

Seeking professional advice when starting a business

From 1 July 2015, the professional expenses associated with starting a new business, such as legal and accounting fees, are deductible in the year those expenses are incurred rather than deducted over a five-year period as was the case in previous years.

If you established a business in 2015-2016, you should speak to your CPA Australia-registered tax agent about claiming professional advice fees as an expense.

Small business restructure rollover relief

From 1 July 2016, small businesses will be able to change the legal structure of their business without incurring any income tax liability when active assets are transferred by one entity to another.

This rollover applies to active assets that are CGT assets, trading stock, revenue assets and depreciating assets used, or held ready for use, in the course of carrying on a business.

If you are in the process of or considering restructuring your small business, you should consider delaying the restructure until after the new financial year commences. Business restructuring can be complex, so you should first speak to your CPA Australia-registered tax agent.

Stream trust capital gains and franked dividends

Broadly, trustees of discretionary trusts can stream capital gains and franked dividends to different beneficiaries if the trust deed allows the trustee to make a beneficiary “specifically entitled” to those amounts. The trustee must document this resolution before 30 June and the beneficiary receives or is entitled to receive an amount equal to the net financial benefit of that gain or dividend.

These streaming rules are complex and taxpayers should consult their CPA Australia-registered tax agent for advice.

Private company loans

Income tax law can potentially treat a payment or a loan by a private company to a shareholder or an associate (like a family member), or the forgiveness of a shareholder’s or associate’s debt, or the use of a company asset by a shareholder or their associate, or the transfer of a company asset to a shareholder or their associate as an unfranked deemed dividend unless an exemption applies.

The most common exemption is to enter into a written loan agreement requiring minimum interest and principal repayments over a specified loan term, which may be seven or 25 years depending on whether or not the loan is secured.

There are various things a private company can do before its 2015-2016 income tax return needs to be lodged to minimise the risk of a shareholder or an associate deriving a deemed dividend. Depending on the circumstances, these strategies may include repaying a loan, declaring a dividend or entering a complying loan agreement before the return needs to be lodged.

The rules around private company loans can be complex, therefore you should consult your CPA Australia-registered tax agent on this.

Prevent deemed dividends in respect of unpaid trust distributions

An unpaid distribution owed by a trust to a related private company beneficiary that arises on or after 1 July 2015 will be treated as a loan by the company, if the trustee and the company are controlled by the same family group. In these circumstances, the associated trust may be taken to have derived a deemed dividend for the amount of the unpaid trust distribution in 2015-2016.

However a deemed dividend may be prevented if the unpaid distribution is paid out, or a complying loan agreement is entered into before the company's 2015-2016 income tax return needs to be lodged. Alternatively, a deemed dividend will not arise if the amount is held in an eligible sub-trust arrangement for the sole benefit of the private company, and other conditions are satisfied.

Trustees and beneficiaries should consult their CPA Australia-registered tax agent on the full implications of these very complex rules if applicable.

Write-off bad debts

Businesses can only obtain income tax deductions for bad debts when various conditions are met.

A deduction will only be available if the debt still exists at the time it is written off. Thus, if the debt is forgiven or compromised before it is written off as bad in the accounts no deduction will be available. The debt must also be effectively unrecoverable and written off in the accounts as bad in the year the deduction is claimed. The bad debt must have been previously brought to account as assessable income or lent in the ordinary course of carrying on a money-lending business. Certain additional requirements must be met where the creditor is either a company or trust.

SuperStream

Originally due to come on line on 1 July, the ATO has announced it is extending the compliance deadline for small businesses to adopt SuperStream until 28 October. This means that if you are an employer with 19 or fewer employees you will pay super contributions for your employees electronically (EFT or BPAY) and send the associated data electronically.

There is no change for larger employers as they already do this.

The data is to be in a standard format so it can be transmitted consistently across the super system – between employers, funds, service providers and the ATO. It's linked to the payment by a unique payment reference number.

This means you can make all your contributions in a single transaction, even if they're going to multiple super funds.

If you are not prepared for SuperStream, seek professional advice or visit the ATO website www.ato.gov.au.

Seek independent advice on end of year tax effective investment products

The end of the financial year often sees the emergence of tax effective investment products. If you are considering such an investment, seek independent advice before making a decision, particularly from your CPA Australia-registered tax agent.

EMPLOYEE TAX TIPS

Do you know what tax deductions and offsets you may be eligible for? The following tips may help you legitimately reduce your tax liability in your 2015-16 return.

Claim work-related deductions

Claiming all your work-related deduction entitlements may save considerable tax. Typical work-related expenses include employment-related telephone, mobile phone, internet usage, computer repairs, union fees and professional subscriptions. Note that for the first time ever the ATO is checking these claims in real time. Claim only what you are legally entitled to claim and ensure that you have all necessary receipts or credit card statements to back-up your claims.

Claim home office expenses

When part of your home has been set aside primarily or exclusively for the purpose of doing work a home office deduction may be allowable. Typical home office costs include heating, cooling, lighting costs, and even depreciation of your office equipment.

To claim the deduction you must have typically kept a diary for at least four weeks of the hours you worked at home. For more information on home office expenses see www.ato.gov.au or your CPA Australia-registered tax agent.

Claim self-education expenses

Self-education expenses can be claimed provided the study is directly related to either maintaining or improving your current occupational skills or it is likely to increase your income from your current employment. If you obtain new qualifications in a different field through study, the expenses incurred are not tax deductible.

Typical self-education expenses include, course fees, textbooks, stationery, student union fees and the depreciation of assets such as computers, tablets and printers.

However, any Higher Education Loan Program (HELP) repayments are not deductible. You must also disallow $250 of self-education expenses, which can include non-deductible amounts such as child-care costs.

Claim depreciation

Immediate deductions can be claimed for assets that cost under $300 to the extent the asset is used for an income producing purpose. Such assets may include tools for tradespeople, calculators, briefcases, computer equipment and technical books purchased by an employee, or minor items of plant purchased by a landlord.

Assets costing $300 or more that are used for an income producing purpose can be written off over a period of time as a tax deduction. The amount of the tax deduction is typically determined by the asset's value, its effective life and the extent to which you use it for income producing purposes.

Maximise motor vehicle deductions

If you use your motor vehicle for work-related travel, there are now only two choices for how you can claim work related travel. If your annual claim for kilometres travelled does not exceed 5,000 kilometres, you can claim a deduction for your vehicle expenses on a cents per kilometre basis. The allowable rate for such claims changes annually so you need to obtain this year's rate from the ATO or your CPA Australia-registered tax agent. Such claims must be based on reasonable estimates.

If your business travel exceeds 5,000 kilometres, you must use the log book method to claim a deduction for your total car-running expenses. You can contact your CPA Australia-registered tax agent to clarify what constitutes work-related travel, and which of the above methods can be applied to maximise your tax position.

Rental property deductions

Owners of rental properties that are being rented out or are ready and available for rent can claim immediate deductions for a range of expenses such as:

- interest on investment loans
- land tax
- council and water rates
- body corporate charges
- insurance
- repairs and maintenance
- agent's commission
- gardening
- pest control
- leases (preparation, registration and stamp duty)
- advertising for tenants
- reasonable travel to inspect properties.

Landlords may be entitled to claim annual deductions for the declining value of depreciable assets (such as stoves, carpets and hot-water systems), and capital-works deductions spread over a number of years (for structural improvements, like re-modelling a bathroom). It's worth noting that the ATO has indicated it is closely examining these claims again this year.

You can contact your CPA Australia-registered tax agent to clarify if your expenditure is repairs and maintenance and can be claimed immediately or improvements, which can be claimed over time.

Maximise tax offsets

Tax offsets directly reduce your tax payable and can add up to a sizeable amount. Eligibility for tax offsets generally depends on your income, family circumstances and conditions for particular offsets.

Taxpayers should check their eligibility for tax offsets which include, amongst others, the low-income tax offset, senior Australians and pensioners offset and the offset for superannuation contributions on behalf of a low-income spouse.

Proposed changes to tax thresholds

The government has proposed to increase the threshold at which the 37 per cent tax rate begins from $80,000 to $87,000. For those earning above $80,000 this typically may present an opportunity to delay earning income to the following year and bringing forward expenses to the current year, however it is uncertain whether this proposed increase will become law therefore we suggest that taxpayers be circumspect.

Be circumspect on superannuation

The proposed changes to superannuation announced in the Budget and the calling of the election make it difficult to provide tips on what people should do with their super. Given the uncertainty at the time of writing, it may be prudent to wait until further detail is released on the proposed changes.

However, if your circumstances permit you may wish to consider making the maximum allowed concessional contribution before concessional contributions cap kick in. The concessional contributions cap for the 2015-16 financial year is $30,000 if you're under 50 and $35,000 if you're aged 50 or over. Concessional contributions include any contributions made by your employer, salary sacrificed amounts and personal contributions claimed as a tax deduction by self-employed or substantially self-employed persons.

If you're making extra contributions to your super, and breach the concessional cap, the excess contributions over the cap will be taxed at your marginal tax rate, although you can have the excess contribution refunded from your super fund.

High-income earners also need to be aware that the contributions tax on concessional contributions is effectively doubled from the normal 15 per cent rate to 30 per cent if their combined income plus concessional contributions exceeds $300,000.

Importantly, don't leave it until 30 June to make your contributions as your super fund may not receive the contribution in time and it will count towards next year's contribution caps, which could result in excess contributions and an unexpected tax bill.

Self-employed tax effective superannuation contributions

A self-employed person will be able to claim their contributions to a complying superannuation fund as fully tax deductible up to the age of 75 in the 2015-16 tax year. However, such contributions will only be deductible if less than 10 per cent of the total of a person's assessable income, reportable fringe benefits or reportable employer superannuation contributions is attributable to their employment as an employee. Such a deduction cannot increase or create a tax loss to be carried forward. Employers can also claim deductions for superannuation contributions made on behalf of their employees.

However, please be aware that government is proposing a $500,000 lifetime non-concessional contributions cap, effective from 1 July 2007.

Consider the superannuation co-contribution

An individual likely to earn less than $50,454 in the 2015-16 tax year should consider making after-tax contributions to their superannuation to qualify for the superannuation co-contribution if their circumstances permit. The Government will match after-tax contributions fifty cents for each dollar contributed up to a maximum of $500 for a person earning up to $35,454. The maximum then gradually reduces for every dollar of total income over $35,454 reducing to nil at $50,454.

Consolidate your super

For most employees it makes a lot of sense to have your entire super in one place. You'll reduce the amount of fees you're paying, only receive one lot of paperwork, and you only have to keep track of one fund.

Consider consolidating the super funds you do have into one fund. Compare your funds to work out which best suits your needs. Important things to look at are fees and charges, the investment options available and life insurance cover. You can look at past investment performance as well but remember it is no guarantee of how the fund will perform in the future.

Once you've chosen the fund you want to keep, contact them and they can help transfer the money from your other super funds.

If you've moved around or changed jobs occasionally, your old super fund may have lost track of you and you may miss out on some of your super when you need it. To find your lost super check out SuperSeeker on the ATO website at www.ato.gov.au

Seek independent advice on end of year tax effective investment products

The end of the financial year often sees the emergence of tax effective investment products. If you are considering such an investment, seek independent advice before making a decision, particularly from your CPA Australia-registered tax agent.

TIPS FOR STUDENTS

Lodging a tax return can seem daunting for students. Parents who may be helping to navigate these uncertain waters can also find it challenging. To help, CPA Australia has put together eight tax tips for students for the year ending 30 June 2016.

Obtain your refund

Where your taxable income for the year ended 30 June 2016 is below the tax-free threshold of $18,200 you will typically not need to lodge an income tax return.

However, you need to lodge a tax return where you have had tax withheld from your salary or other sources of income such as bank interest during the year (where you have not provided your tax file number (TFN) to your bank) or distributions from a family trust where you have not previously provided your TFN to the trustee, regardless of the income you have earned.

If you do not lodge a tax return, you will not receive a refund you may be entitled to.

Identify all your sources of assessable income

To determine whether you need to lodge a tax return or not, identify all sources of income derived during the year that is assessable for income tax purposes.

Such amounts include:

- income from work as an employee or a contractor, including any tips or gratuities received
- investment income, such as any bank interest or dividends on shares received
- certain government payments received such as Austudy, ABSTUDY living allowance and youth allowance
- some non-government scholarships, grants and awards
- distributions from a family trust or partnership

Consider the special rules for those under 18

Certain types of income derived by minors under the age of 18 may be taxed at a higher rate than would apply to that same income if the taxpayer was aged 18 or over. The types of income that may be taxed differently include:

- income received as a beneficiary from a trust
- interest, dividends, rent and royalties

Such income will be taxed at a rate of 68 per cent for income that is greater than $416 and less than $1307, and at a rate of 47 per cent on income that exceeds $1307.

Minors will also not be able to typically claim the low income tax offset to reduce their tax liability on such income.

Ordinary marginal tax rates will apply to other income derived by a minor aged under 18, such as:

- employment or business income
- taxable government payments such as Youth Allowance
- income from a deceased estate
- income from property transferred to a minor as a result of a person’s death or a family breakdown
- net capital gains on a disposal of investments

Know the deductions you may be entitled to

You are entitled to claim deductions for certain expenses that are directly related to the income you have received. For example, you can claim work-related deductions if you have the necessary receipts or credit card statements and they directly relate to the work you do.

Typical work-related expenses that are allowable include:

- uniforms and protective clothing
- employment-related telephone, mobile and internet costs
- subscriptions and union fees
- travel expenses between worksites or client locations but not the commute to and from home

You should consult your [CPA Australia-registered tax agent] to identify all eligible deductions.

Claim the right tax offsets

If you receive Austudy, ABSTUDY living allowance, Newstart Allowance, youth allowance or other taxable Commonwealth government education or training payments, you are eligible for the beneficiary offset.

This offset ensures you do not have to pay tax on those payments. You may, however, have to pay tax on other income, such as wages or investment income.

In certain circumstances the low income tax offset will be available to reduce tax payable on such income provided your taxable income exceeds the tax-free threshold for the particular year.

The Australian Taxation Office (ATO) will automatically calculate these offsets when they process your tax return.

You may, however, be eligible for other tax offsets which you must claim through your tax return.

Students should therefore consult their [CPA Australia-registered tax agent] to identify if any other tax offsets are available.

Identify eligible self-education expenses

If your study is directly related to maintaining or improving your skills in your current occupation, or could increase your income from your current employment, you can claim self-education expenses.

Typical self-education expenses include:

- course fees
- textbooks
- stationery
- student union fees
- the depreciation of assets such as computers, tablets and printers

By contrast if you are embarking on study for the first time or if the study is unrelated to your work then the expenses incurred are not deductible.

Understand HELP debts

Higher Education Loan Program (HELP) debt repayments are not tax deductible.

If you have a HELP debt, repayments only commence once your salary exceeds A$54,126 (this figure is for year ending 30 June 2016). The specific amount required to be repaid will depend on a range of factors, including your taxable income.

If you are working and you have filled out a tax file number declaration form indicating you have a HELP debt, your employer will withhold additional tax from your salary to assist you cover your HELP debt. The ATO will automatically calculate what your HELP repayment is for the year once you lodge your tax return.

If you don't notify your employer that you have a HELP debt through the TFN declaration, your employer will not withhold the additional tax and you may therefore find yourself facing an unexpectedly hefty tax bill.

If your income varies significantly over a year and you do not expect to exceed the minimum repayment threshold you can ask your employer to stop withholding the additional tax for HELP purposes and that additional tax withheld may be refunded to you after you lodge your tax return.

People who are overseas with a HELP debt will be required to make repayments from 1 July 2017 based on their world-wide income for the 2016-17 financial year onwards.

Know if you're a resident for tax purposes

If you're an international student studying at an Australian education institution in Australia for a period of six months or more you will be regarded as an Australian resident for tax purposes. You will therefore pay the same rate of tax as other resident taxpayers and have access to the tax-free threshold.

Note: The list above is not exhaustive and you should always speak to a CPA Australia-registered tax agent about your specific circumstances.

EOFY RESOLUTIONS NO BUSINESS SHOULD DO WITHOUT

Do a financial health-check of your business

Year end is a good time to check the financial health of your business. Reviewing your financial statements and doing some basic calculations on liquidity, solvency, profitability and return on investment, and comparing these results with previous annual figures and similar businesses in your industry will help you identify strengths and key areas of weakness or potential threats to your business.

Revisit your strategic plan

After doing a financial health check, you should use the end of the financial year to reconsider your strategic plan. This should involve an analysis of your market and predictions on future developments. It is important that your strategic plan reflects the objectives you, as the business owner, have for your business and your personal life.

Your strategic plan should also address weaknesses identified in the financial health check and should include a work plan, responsibilities and due dates. The work plan should be implemented and monitored throughout the coming year.

Draw up a budget for the new financial year

Your budget needs to align to your strategic plan so you can allocate resources to achieve your plan's objectives. If the budget shows that an objective is not affordable, you may either need to seek more resources for that objective (for example, borrow funds from a bank) or modify your strategic plan.

List your assumptions when setting your budget. To stress test your business, you can amend these assumptions to see what it does to your financial position, e.g. include a 10 to 20 per cent reduction in sales or a 20 per cent increase in fuel costs.

A budget should be regularly monitored against actual results and variations should be questioned.

Prepare a cash flow forecast

One of the most significant problems a small business can face is poor cash flow. A cash-flow forecast is therefore a fundamental part of good business practice. Ensure that your cash-flow forecast aligns with your budget and is monitored regularly.

Review your business's profitability

Issues impacting your business profitability may come to light in your financial health check, review of your strategic plan and while drafting your budget. Other issues impacting profitability may also be found by reviewing:

- staff productivity
- your production process
- your supply chain
- how you are using your business assets
- costs.

You should also consider tactics to increase sales of your most profitable products or services, reduce input costs and seek advice from your CPA Australia registered tax agent on tax effective strategies.

Ensure you have finance options

All businesses need finance to fund ongoing operations and to grow. Finance can be provided from debt, equity and internally generated cash flow. The purpose for the finance, e.g. an asset purchase, will help you determine the type of finance you should access.

If you borrow from a lending institution, year-end is the perfect time to meet with your lender to discuss your business plans for the coming year. You may find that they will offer finance for your future plans.

It is good business practice to have some surplus finance available to cover business contingencies including taking advantage of new opportunities.

Revisit your marketing plan

While it may seem obvious, it is important that your marketing plan is focused on achieving your key objectives, particularly improving your cash position. Ideas for using your marketing plan to improve the cash position of the business include:

- focusing on sales that have a high margin and bring in cash quickly, e.g. well-placed visual displays such as in-store signs and posters to highlight a special or high-margin product
- rewarding staff for sales of products with a higher margin
- paying staff a commission only when payment is received
- measuring the success of each promotional activity or campaign so as to gauge its effectiveness
- focusing on encouraging customers to pay at the point of purchase or to pay as early as possible.

Review your risk management strategies

Whether your business is facing good times or bad, it is important to always have appropriate risk management strategies in place. Important risks to be aware of and manage include:

- relying too heavily on a small number of major customers: can in part be managed through increasing customer numbers and helping smaller customers grow
- relying too heavily on one supplier: identify potential alternative suppliers
- selling on credit: subject potential customers to credit checks, limiting the amount of credit that a customer can have, following up on payment before the due date and not supplying customers if they pay late
- fraud: have internal controls in high-risk areas, e.g. cash handling, and making sure those internal controls are enforced and breaches are acted upon promptly.

Take advantage of opportunities

Don't turn a blind eye to new opportunities that are consistent with your strategic direction and can be properly funded.

Conclusion

Businesses that are well run use these ideas during good times and bad in order to maximise their profits, grow and minimise risk. Using them now can help your business improve, which will likely lead to long-term growth.