

2017 Year-End Tax Planning Guide

This information is designed to provide guidance when reviewing your year-end tax planning. This is a general guide only, and not designed to cover all scenarios. You should always seek professional advice regarding your specific tax affairs.

1) Tax Timing Benefits

- **Bring forward expenses** – making purchases before 30 June 2017 can allow you to claim a tax deduction this year rather than next year. This is a timing benefit only, as next year, you will have less to claim. Some issues to be careful of when making purchases:
 - Items of plant & equipment costing less than \$20,000 per item, are fully deductible in the year of purchase for small business operators (turnover less than \$2million). A single item costing more than \$20,000 needs to be written off using traditional depreciation rules. **Note – this measure is scheduled to cease on 30 June 2017.**
 - Make sure your purchases are immediately deductible e.g. trading stock, repairs and maintenance, office stationery etc. New plant and equipment usually has to be depreciated over a number of years if the value is over \$20,000 (see above). Deliberately purchasing plant and equipment or property improvements (which you do not need) before 30 June 2017 to get a tax deduction, will probably be self-defeating.
 - Be careful when prepaying expenses in advance e.g. insurance, interest etc. For small businesses (turnover less than \$2 million), prepayments of up to 12 months are usually deductible. Larger businesses should examine prepayments carefully.
 - You should only bring forward purchases you already intend making at some future point. Making additional purchases that you ordinarily wouldn't make, simply to get a tax deduction, is commercially flawed.
 - Don't listen to sales people! There is plenty of 'free tax advice' offered toward the end of the financial year, a lot of it is incorrect and all of it is designed to make the sale (rather than give you best overall tax position).
 - Donations made to registered charities are 100% deductible, if paid before 30 June 2017. The charity must be registered with the ATO as a 'deductible gift recipient' (if unsure, ask the charity).

- **Pay employee super before 30 June 2017** – employee super contributions are only ever deductible when paid, and should always be paid no later than the 28th day after the end of each quarter. Paying the June 2017 quarter super guarantee before 30 June 2017 will allow you to claim a deduction in the 2017 financial year.
- **Delay receipt of income** – holding off issuing customer invoices until after 30 June 2017 can delay the recording of taxable income from one financial year to the next. This practice though can severely interrupt cash flow and have a negative commercial impact on your business. You should be very careful with this strategy.
- **Review the basis of your accounting** – small businesses will usually compile their accounting records and prepare their tax return on either a cash basis (only record income/ expenses when physically received/paid) or an accruals basis (record income/expenses when invoices issued/received). The ATO has provided detailed guidance on when it is appropriate for a business to use either option. Generally, the larger the business, the more likely the accruals method should be used. A growing business who makes a one-time change to your accounting method, in line with ATO guidance, can often receive a timing benefit in the year it makes the change.
- **Review depreciation pools** – small business depreciation rules change slightly from year to year. One change I have noted that a number of accountants seem to have missed is the abolition of the 'long life pool' effective 1 July 2012. Previously, assets with an effective life of 25 years or more, were written off at a lowly 5% per year. These assets should now be added to the general small business pool and deducted at a rate of 30% per year.
- **Capital gains tax timing** – if you intend to sell assets, either to a third party or as part of a business restructure, make sure you have a good understanding of the timing issues in place, particularly if you wish to offset capital losses. The effective date for a capital gains tax event is the contract date (not settlement date). A capital loss can only be applied against or 'used up' by a capital gain (and not against ordinary income). The capital loss must have been incurred in the same financial year, or a prior financial year as the capital gain.

2) Permanent Tax Benefits

- **Maximise deductible super contributions** – the concessional contributions cap for the 2017 financial year is \$30,000 per person, or \$35,000 for those aged 49 or over at 30 June 2016. Any super contributions must be banked by the superfund prior to 30 June 2017, don't leave it too late to transfer the cash! Make sure you take into account super contributions from *all* sources. **Note – this cap will reduce to \$25,000 for all ages from 1 July 2017.**
- **Taking advantage of a permanent tax rate cut** – sometimes a timing benefit can have a permanent effect. Recent changes to the company tax rate will see the tax rate fall from 30% (28.5% for small business entities with turnover under \$2 million) to an eventual rate of 25% for all companies with annual turnover of \$50 million or less. The schedule of changes is a little intricate and will be phased in over the next ten years. Relevant changes come into effect each year on 1 July. Companies who are due a tax rate in the following tax year may be able to put in place timing measures which will reduce their taxable income now, and make additional income eligible to the lower tax rate in the following year, thus capturing a permanent tax cut.
- **Write off bad debtors** – review the list of people who owe you money and write off any that you believe are not recoverable. You should make a physical write off in your accounting system before 30 June, and cease collection activity. Depending on your GST reporting method, you may also be able to claim back some GST previously paid, on bad debts written off.
- **Write off old stock** – review your stock on hand and write off any old stock that is out of date, obsolete, damaged or unsaleable. Ideally, you should also perform a full stocktake at 30 June.
- **Write off old plant & equipment** – review your depreciation schedule and write off any items which you no longer own or are no longer in use. It always surprises me how many times I see old equipment sitting on a depreciation schedule that has not been used in the business for years.
- **Research and development (R&D)** – expenditure can provide generous tax concessions. Many businesses conduct R&D, and incur related expenditure, without realising. R&D is a very specific area of tax expertise and only applies to companies. Ask your accountant to refer you an R&D expert if you think you might qualify.

- **Fuel Tax Credits** – does your business purchase fuel for anything other than light vehicles (4.5 tonne GVM or less) travelling on a public roads? If so, you are probably eligible for Fuel Tax Credits. Fuel Tax Credits should be reported and claimed in your Business Activity Statement and are based on the number litres of fuel used each period. If you have neglected to claim Fuel Tax Credits in previous years, you may be due some refunds.
- **Year-end Tax Effective Investments** - there are no shortage of end of year tax investments and schemes which offer large upfront deductions. Many of these schemes however live up the old adage of ‘if it seems too good to be true...’. A worthwhile investment strategy should be a sound investment first, any tax benefit should be secondary. If you are still contemplating investing in one of these schemes however, make sure the promoter has obtained a product ruling from the ATO and check to see if this investment is subject to a Tax Office Taxpayer Alert.

3) Tax Risk Management

- **Trust Distributions** – historically, small businesses who operated their business using a family trust structure could wait until after year end to determine who received income distributions. This process would usually take place when the trust financial statements and tax return were being prepared, and the accountant would suggest a distribution in a tax effective manner. Trust distributions now need to be made **before** 30 June each year and supported by appropriate minutes.
- **Unpaid present entitlements** – does your family trust distribute profits to a private company? If so, you should pay particular attention to changes which have occurred in recent years.
- **Loans from private companies** – have the directors (or their associates) taken money from your private company, in excess of wages and dividends? If so, you may have created a tax risk. Any amounts lent from your private company to the directors (and their associates) can be deemed as income in the hands of the recipient unless the funds are either repaid within 12 months or lent on commercial terms (i.e. a written loan agreement in place, regular repayments and interest).
- **Reviewing small business entity status** – there are a number of specific tax concessions available to 'small business entities'. The ATO defines a small business entity as having an aggregated turnover less than \$2 million per annum. If you are approaching, or have recently exceeded this level of turnover, you should make sure of which tax concessions are no longer available to you. **Note – the turnover threshold for small business companies has increased from \$2 million to \$10 million turnover for some concessions only. This may result in some businesses being eligible for concessions for the first time.**
- **Review losses** – businesses with multiple entities within their structure, should make sure they can offset any losses in one entity, with profits in another. In some cases, action needs to be taken before 30 June to make sure you get the best use of available losses and that losses are not trapped.
- **Non-commercial losses** – specific tax rules exist which prevent, in some circumstances, taxpayers claiming losses against other income from business activities which are non-commercial.

4) Good House Keeping

A new financial year is often an opportunity to start fresh, put some sins from the past behind you, and/or step back and take a 'big picture' look at your business.

- **Capture all relevant information** – Capturing information is crucial to claiming all allowable deductions. Your accountant can only work with the information provided to them so usually, the better the quality of the information, the better the final result. Some people like to summarise information for the accountant's benefit, to save time. Other people simply provide all source documents and ask the accountant to compile for them (the proverbial 'shoebox' style of record keeping!). The ideal scenario is to do both i.e. summarise information to avoid additional processing time and cost, though also provide the source information to allow the accountant to drill down into specific transactions, if required.
- **Review your business structure** – are you using the best structure for you? Is your current structure cost effective? Is your structure too simple or unnecessarily complex? Does your structure offer maximum tax benefits though also provide other commercial benefits such as asset protection, ability to admit new business partners etc? The end of the financial year is the perfect time to make any changes to your business structure if required. **New rules which apply from 1 July 2016 allow much more generous CGT free 'roll-overs' from one business structure into another.**
- **Update your business plan** – do you have a business plan that you haven't looked at in years? A new financial year is the perfect opportunity to re-fresh this plan and spend some time thinking about the direction of your business.
- **Set some goals** – any planning process should include some targets and goals. To be effective, these goals should be Specific, Measurable, Attainable, Realistic and Timely (S.M.A.R.T). A new financial year is a great opportunity to re-set the clock and put some SMART goals in place for the next twelve months.
- **Make sure your important documents are in place and up to date** – documents such as trust deeds, partnership agreements, company constitutions, share certificates etc., are all very important, though unfortunately are not always maintained properly or reviewed often enough. Firstly, you should know where all these documents are located (usually with your accountant or solicitor). Secondly you should know who is listed as holding all the important roles e.g. directors, shareholders, trustee, appointor etc. Finally, you should make sure that they are up to date, and applicable for today's legislation.

- **Review your accounting systems** – are you using old and outdated accounting software? Does this software require a lot of manual processing? Modern software packages offer a lot of flexibility and can access features such as automatic bank feeds which significantly reduce the amount of manual processing required. ‘Cloud’ based packages allow your data to be stored securely online and avoids the need to manually transfer files to your accountant.
- **Insure your most valuable asset** – most Australians do not have adequate life and disability insurance. What happens if you are no longer around to support your family financially, or become permanently disabled and can no longer work? How much will your family need to live comfortably? The difference between what cover you should have and what you actually have might scare you.
- **Update your Will** – Do you have a will in place, and if so, when did you last update it? What about other related documents such as powers of attorney, enduring guardianship, advanced health care directives etc. Proper estate planning is an extremely important process that should be tailored to your personal circumstances and conducted by a legal professional with specific experience in estate planning.