

## 2014 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 2014 can allow you 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:
  - 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. Deliberately purchasing plant and equipment or property improvements before 30 June 2014 to get a tax deduction, will probably be self-defeating.
  - From 1 July 2012 onward, small business entities (less than \$2 million turnover) could claim an immediate write-off for plant and equipment which cost \$6,500 or less (up from the previous threshold of \$1,000). This and other small business related tax measures, were introduced together with the much publicised Mining Resources Rent Tax (The Mining Tax). This increased threshold seemingly ceased effective 1 January 2014, when the government introduced legislation to repeal the concession, as part of its attempt to scrap the Mining Tax. This repeal legislation however has yet to pass the Senate and is the subject of current political debate. Hopefully the May 2014 budget will add some clarity as to the final position of the small business write off limit.
  - 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 2013. The charity must be registered with the ATO as a 'deductible gift recipient' (if unsure, ask the charity).

- **Pay employee super before 30 June 2014** – employee super contributions are only ever deductible when paid, and should always be paid no later than the 28<sup>th</sup> day after the end of each quarter. Paying the June 2014 quarter super guarantee before 30 June 2014 will allow you to claim a deduction in 2014 financial year.
- **Delay receipt of income** – holding off issuing customer invoices until after 30 June 2014 can delay the recording of taxable income from one financial year to the next. This practice however can severely interrupt cash flow and have a commercial effect on your business.
- **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 2014 financial year is \$25,000 per person (\$35,000 for those aged 59 years or over on 30 June 2013). Any super contributions must be banked by the superfund prior to 30 June 2014, don’t leave it too late to transfer the cash! Make sure you take into account super contributions from *all* sources.
- **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. 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.
- **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.

- **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.
- **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, personal wills 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.