Tax tips & planning strategies

Tax planning is something you should be looking at regularly throughout the year. The reality, however, is that most of us tend only to look at it about now. Whilst there is no magic formula for the 'best' tax planning strategies, good planning practice aims to:

- **cover the basics** - such as including all your assessable income and maximising all the tax deductions to which you are entitled; and
- **look at opportunities to improve your tax situation** - this depends on your particular circumstances but may include things like ensuring any capital gains are offset with any available capital losses or maximising your superannuation contributions for the year.

Following are some things to consider before year end:

- Timing of Income - can you defer the receipt until after 30 June 2010?
- Was the income received in advance and therefore not derived or taxed until services are provided to the customer?
- Timing of expenses - expenses are deductible if incurred by 30 June 2010
- Repairs - incur costs before 30 June 2010
- Bad debts - review debtor records & physically write off bad debts before year end
- Trading stock - do a physical stock take; identify obsolete stock; & scrap any unwanted stock by 30 June 2010
- Prepayments - where expenditure provides a benefit after the end of the current year, generally the deduction is pro-rated over more than one income year unless the expenditure is "excluded expenditure".

Such expenditure includes:
- Salary;
- Amounts required to be paid by law or a court;
- Expenditure under $1000;
- Certain expenditure incurred by a general insurance company.

Note: if you are a Small Business Entity or an individual not carrying on a business concessional prepayment rules apply. An immediate deduction is available for expenditure incurred before 30 June 2010 if the eligible service period does not exceed 12 months (e.g. interest on loans; rent; lease fees; business related subscriptions).

- Superannuation - make sure employee quarterly superannuation guarantee contributions are received by the respective funds before 30 June 2010 to ensure deductibility in the current year. Before making additional contributions make sure you take into account any contributions already made to ensure concessional and non concessional caps are not exceeded.

- Depreciation - review asset registers & scrap all obsolete items before 30 June 2010

- Sale of assets/investments & CGT issues - where CGT assets are realised for a gain, consider delaying the sale until after year's end unless you have existing current or prior year losses that may be utilised. Remember, the timing of disposal under a contract for CGT purposes is generally the date of making the contract.

- This list is not intended to be exhaustive and there are various other investment type strategies that may be considered where appropriate.

Other Year End Tips:

Small business tax break

The tax break was designed to encourage capital investment by Australian businesses.

A reminder for small businesses acquiring eligible assets between 13 December 2008 and 31 December 2009, these assets must be installed ready for use by 31 December 2010 to attract a bonus tax deduction of 50 percent.

All other businesses will be able to claim a bonus deduction of:

- 30% on expenditure for eligible assets acquired between 13 December 2008 and 30 June 2009 and installed ready for use before 30 June 2010; and

- 10% on expenditure for eligible assets acquired between 13 December 2008 and 30 June 2009 or 1 July 2009 and 31 December 2009 and installed ready for use before 31 December 2010.

Issue employees' payment summaries

As a general rule, you are required to give your employees their payment summaries ('group certificates' in the old language) on or before 14 July 2010.

Remember, where the total taxable value of reportable fringe benefits for an employee is more than $2000 for the current FBT year, you will have to disclose the grossed up value on the employee's payment summary.

From 2009-10 some superannuation contributions you make at the request of your employees must be reported on employee payment summaries.

Superannuation guarantee obligations or industrial agreement obligations are not included but amounts contributed under salary sacrifice arrangements are generally required to be reported.

Keeping proper records

It goes without saying that this is essential and is where a lot of problems start if not done properly. To get motivated, some people find it helpful to approach record keeping as if your business could be audited by the ATO at any time. Here are some tips to help you:

- generally you should keep your records for five years;

- watch out for some types of expenses that need particular records (e.g. motor vehicle log books, odometer records, diaries for travel expenses).

TIP It makes things a lot easier if you can keep an up-to-date business assets' register that lists all plant, equipment, furniture, fittings, other assets, including all items bought, sold & disposed of during the year.

WARNING

Some records need to be kept for longer than 5 years.

For example, if a capital asset is sold – records should be kept for 5 years after the sale.

Similarly, if depreciation deductions are being claimed in respect of an asset, records should be kept until 5 years after the last claim for depreciation deductions.

Please call our office to arrange a time to discuss your tax planning opportunities.

Warning - Excess Superannuation Contributions may be taxed at 93%

As you may be aware there have been some recent changes to the level of pre-tax contributions you can make to superannuation. Salary sacrificing is an arrangement where you agree to forego part of your future salary or wages in return for your employer providing benefits of a similar value. You can sacrifice your salary or wages into a variety of benefits including:

- superannuation
- car fringe benefits, and
- expense payment fringe benefits, such as
  - school fees
  - child care costs, and
  - loan repayments

Important Note

In relation to superannuation contributions, limits apply to the total amount of pre-tax contributions that can be made on your behalf in each financial year without incurring substantial tax penalties. Pre-tax contributions include salary sacrifice, but also include the Superannuation Guarantee amounts paid by your employer and any personal contributions for which you have claimed a tax deduction.

During the 2008/09 financial year:

- If under age 50, you could make pre-tax contributions (including salary sacrifice) of up to $50,000.
- If over age 50, a higher limit of $100,000 applied for pre-tax contributions

But this has now changed <u>and taxation of up to 93% could apply</u> if new reduced limits are exceeded.

The new reduced limits from 1 July 2009 mean that:

- If under 50, you can now only make pre-tax contributions of up to $25,000.
- If over 50, your pre-tax contribution limit has reduced to $50,000.

Note: this will undergo a further substantial reduction on 1 July 2012

There are also limits on the amount of funds you can contribute as personal contributions from after tax funds. After tax contributions are limited to $150,000 p.a. People who are under 65 at any time during a financial year, however, are able to bring forward two future years of after tax contributions effectively allowing them to contribute up to $450,000 in one financial year. Again, severe tax penalties can apply if you exceed these limits.

Action:

You must review your current salary sacrifice arrangements now to ensure you will not exceed these new pre-tax contribution limits in the current financial year.

Due to the consequences if you exceed the contribution limits we recommend that **you contact our office immediately** to review your current situation. Speak to us about how these changes affect you and to review your current situation.

Super co-contributions

About the super co-contribution

The super co-contribution is a government measure to boost super savings. If you are a low or middle income earner, you may be able to receive the super co-contribution from the government by making eligible personal superannuation contributions to your fund. You do not have to contribute the full $1,000 to be eligible – any amount up to $1,000 will attract the super co-contribution.

The co-contribution:

- must be preserved in a super fund or retirement savings account (RSA) – it can only be accessed when other preserved amounts can be accessed
- is not included as income in your tax return
- will not be subject to tax when paid to the fund or RSA provider
- will not be taxed when received as a benefit.

Prior to 1 July 2007, only individuals who received income from employment-related activities were eligible to receive the co-contribution. However, from 1 July 2007, the co-contribution initiative has been extended to include self-employed persons.

The maximum co-contribution payable and the way we work out the amount of co-contribution we pay depends on the financial year in which you made your eligible personal super contributions.

Super co-contribution temporary reduction

In the 2009 Federal Budget, the government announced a temporary reduction in the co-contribution. From 1 July 2009, the super co-contribution matching rates are:

Date	Amount you will receive for every $1 of personal super contributions
From 1 July 2009 until 30 June 2012	$1 for every $1 you contribute, up to a maximum co-contribution of $1,000 a year. However, you must reduce this by 3.333 cents for every dollar your total income is over the minimum income threshold amount.
From 1 July 2012 until 30 June 2014	$1.25 for every $1 you contribute, up to a maximum co-contribution of $1,250 a year. However, you must reduce this by 4.167 cents for every dollar your total income is over the minimum income threshold amount.
From 1 July 2014	$1.50 for every $1 you contribute, up to a maximum co-contribution of $1,500 a year. However, you must reduce this by 5.0 cents for every dollar your total income is over the minimum income threshold amount.

Super co-contribution income thresholds

The way your co-contribution is determined will depend on the financial year in which you made your personal super contributions.

For the income threshold purpose your total income (less business deductions in the 2008 and later years) is the sum of your assessable income, your reportable fringe benefits and your reportable employer super contributions (for the 2010 and later financial years).

	Lower income threshold	Higher income threshold	What will I receive for every $1 of personal super contributions?	What is my maximum entitlement?
From 1 July 2009 until 30 June 2010	$31,920	$61,920	$1 for every $1, up to a maximum super co-contribution of $1,000 a year.	Your maximum entitlement is $1,000. However, you must reduce this by 3.333 cents for every dollar your total income, less business deductions is over $31,920, up to $61,920.

Eligibility

You will be eligible for the co-contribution if all of the following apply:

- you make a personal super contribution by 30 June each year into a complying super fund or RSA and don't claim a deduction for all of it
- your total income (less any business deductions – for the 2007-08 and later years) is lower than the higher income threshold
- 10% or more of your total income is from
  - for 2006-07 and earlier years – eligible employment
  - 2007-08 and later years – eligible employment, carrying on a business or a combination of both
- you are less than 71 years old at the end of the year of income
- you do not hold an eligible temporary resident visa at any time during the year, unless you are a New Zealand resident or holder of a prescribed visa
- you lodge your income tax return for the relevant financial year.

Please call our office on 9301 2200 for more information.