Business Plus+

Collins Mellody

INDEX

The 2010 Financial Year Is Coming To An End	1
End Of Year Tips	1
Taxing Of Trading Income	1
Small Business Entity Rules	2
Deductions	2
Deductions On Accruals Basis	3
Stock	4
Assets	4
Employment Issues	4
Superannuation Funds	4
Income Issues	4
Companies	5
Capital Gains Tax Items	5
Personal Planning	5
Zone Allowance	5
End Of Financial Year Review	6
Business Review 2009/10	6

Issue Number 51 – End Of Year Tax Planning

The 2010 Financial Year Is Coming To An End

This special **Business Plus+** newsletter contains commentary on many of the items that 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

Investment Allowance - Small Business - If you ordered an eligible asset prior to 31st December 2009, you can claim the 50% investment allowance if you install the eligible asset by 30th June 2010 (if not you can still install by 31st December 2010 to claim the 50% investment allowance in 2010/11).
Investment Allowance - Turnover over $2M - If you ordered an eligible asset prior to 30th June 2009, you need to install the asset prior to 30th June 2010 to claim the 30% investment allowance.

If the order was placed between 1st July 2009 and 31st December 2009, you can claim 10% investment allowance if you install the eligible asset by 30th June 2010 (if not you can still install by 31st December 2010 to claim the 10% investment allowance in 2010/11.)

Deferring Income - Consider deferring income, if you can, to take advantage of the lower tax rates that will apply in 2010/11.

Prepayments - If your turnover is under $2M, consider any prepayments prior to 30th June 2010 to take advantage of the lower tax rates applicable next year.

"Cash Is King"! - Update your financial records to 30th June 2010, so you can discuss with us, with the possible variation of your PAYG Instalment due by 28th July 2010.

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 invoicing.

Small Business Entity Rules

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 the current year.

Depreciation Rules
If the asset costs less than $1,000 it may be written off in full in the year in which it was acquired. Most other depreciating assets, with an effective life of less than 25 years, are pooled and depreciated at 30%.

Trading Stock Rules For Small Business Entities
Small Business Entities do not have to account for changes in trading stock or do 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.

Entrepreneur's Tax Offset
A tax offset of 25% is available to small business entity taxpayers with an aggregated turnover of less than $75,000.

Small Business Tax Break (Investment Allowance)
An investment allowance for small businesses (with turnovers under $2M) of 50% of eligible assets ordered between 13th December 2008 and 31st December 2009, subject to the eligible asset being installed by 31st December 2010. The special tax deduction was available on capital items such as motor vehicles, computer hardware, machinery and equipment as well as for making capital improvements to existing machinery and equipment. The bonus deduction does not apply to intangibles such as software and rights. Land and trading stock are excluded from the definition of depreciating assets and will not qualify for the tax break. Cars can qualify for the tax break, except where the taxpayer uses the cents per km method to determine their car expense deductions. Small businesses (with turnovers under $2M) only need to invest a minimum of $1,000 per asset in order to qualify for the tax break. Eligible small businesses can also amalgamate their expenditure in batches and sets of assets in order to meet this threshold.

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 3-year average group turnover of $2M or more.

Deductions (cont.)

Prepayments "Excluded Expenditure"
There is an exemption for payments of "excluded expenditure". (*See us for further details.*)

Bring Forward Deductions
Because of the reductions in personal income tax for residents earning in excess of $37,000 during 2010/11, it may be advantageous to bring forward payments prior to 30th June 2010.

Interest On Investment Loans
Taxpayers who have borrowed money for a non-business investment (eg rental property) can check with their lenders to see if they can prepay interest prior to 30th June 2010.

Bad Debts (On An Accruals Basis)
Actually write-off any bad debts prior to 30th June and prepare minutes authorising the write-off.

Staff Bonuses
Ensure a cheque has been written prior to 30th June and PAYG withholding tax deducted.

Staff Holidays
Where practical, encourage staff to take holidays prior to 30th June 2010.

Superannuation
Contributions of up to $25,000 can be made for a person under 50 and up to $50,000 for a person 50 & over.

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 And Maintenance
Ensure that the work has been completed prior to 30th June.

Deductions (cont.)

Directors' Fees
Ensure cheques are drawn prior to 30th June 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.

Negative Gearing
The net loss, which may include interest, borrowing costs etc, may be deductible.

Building Allowance
Construction costs of income producing buildings can 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 And Development
Special conditions exist for companies that incur expenses on Research and Development. Contact your Professional Accountant for information.

Gifts
Ensure that the payment is made to a tax-deductible charity on or before 30th June.

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.

Deductions (cont.)

Audit Fees
Deductible if there is a contract that creates a presently existing liability before the 30th June.

Salary Packages
Ensure that salary packages for 2010/11 are negotiated and documented prior to 30th June 2010.

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.

General Business Tax Break (Investment Allowance)
A General Business Tax Break is available for businesses, with turnovers in excess of $2M, of 30% for expenditure on eligible assets ordered between 13th December 2008 and 30th June 2009. For acquisitions between 1st July 2009 and 31st December 2009, the investment allowance for businesses with turnovers in excess of $2M will be 10 %, subject to the eligible asset being installed by 31st December 2010. The special tax deduction is available on capital items such as motor vehicles, computer hardware, machinery and equipment, as well as for making capital improvements to existing machinery and equipment. To qualify for the deduction, businesses with turnovers over $2M will be able to claim the bonus deduction for assets costing $10,000 or more (exclusive of GST).

Legal Costs
Review any legal costs that have been incurred. If the legal costs relate to regular business operations, eg 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 $57,180 (2009/10).

Deductions On Accruals Basis

SUBJECT TO 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 2010, it can be accrued and claimed as a tax deduction in the year ending 30th June 2010.

Commissions Owing (Accruals Basis)
Where employees or another business are owed commission by your business for services rendered up to 30th June 2010, the accrued amount can be claimed as a tax deduction at 30th June 2010.

Deductions On Accruals Basis (Cont.)

Interest (Accruals Basis)
Any accrued interest outstanding on a business loan that has not been paid at 30th June 2010 can be claimed as a tax deduction at 30th June 2010.

Salaries And Wages (Accruals Basis)
The accrued expense for the days that employees have worked, but not paid at 30th June 2010, can be claimed as a tax deduction at 30th June 2010.

Commercial Bills (Accruals Basis)
Where the term of a Commercial Bill expires beyond the 30th June 2010, the discount applicable to the period up to 30th June 2010 can be claimed as a tax deduction.

Rent (Accruals Basis)
If rent is in arrears, the part that is owed up to 30th June 2010 can be claimed as a tax deduction.

Investment Deductions
It is recommended that you have a meeting with your Professional Accountant prior to committing to a Managed Investment Scheme (MIS) investment.

Stock

Stock On Hand
Review stocktake list as at 31st May. Determine whether to conduct "sales" prior to 30th June 2010. Conduct stocktake as at 30th June 2010. If you are conducting regular “rolling” stocktakes through the year, it may not be necessary to conduct a stocktake as at 30th June 2010. 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.

Assets

Fixed Asset
Determine if there are any benefits in scrapping any fixed assets to obtain the tax write off.

Employment Issues

Payment Summaries
Payment summaries have to be prepared and forwarded to all employees by 14th July each year.

PAYG Withholding Tax
Annual report due 14th August.

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.

Superannuation Funds

- Contributions to superannuation funds are taxed at 15% of the contribution.
- Earnings made in a superannuation fund are taxed at 15% paid by the superannuation fund.
- For people 60 years or over and 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

Deferring Assessable Income
With the reduction of personal income tax rates for residents in 2010/11, there may be benefits (if possible) in delaying the receipt of taxable income into 2010/11 when the lower taxation rates will apply.

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 And Produce Sales
Farmers can defer livestock and produce sales until after 30th June. 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 that has been 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.

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. Interest rate to be charged during 2009/10 is a minimum of 5.75%. 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."

Personal Planning

Zone Allowance
Record the number of days that 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 $6,000. 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, then 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 and that may have an affect on other government payments you receive.

Superannuation Contributions
Special concessions are available to low income or non-working spouses relative to superannuation contributions.

"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.

End Of Financial Year Review

If you have any queries on any other items that have not been discussed in this newsletter, or you have general matters that you would like to discuss with us relative to your taxation affairs for the year ending 30th June 2010, please contact us so that a convenient time for a meeting can be arranged.

Business Review 2009/10

Now is an ideal time to talk to us about a "Mentoring for Growth" strategy for your business. Particularly relating to:-

- Cashflow Management
- Debtors
- Bank's/Lender's Review
- Business Costs
- Customer Review
- Exports
- Gross Profits Analysis
- Insurance
- Leadership
- Market Overview
- Marketing
- Sales Targets & Calculations Of "What Ifs'"
- Risk Management
- Sales Analysis
- Stock
- Succession Planning
- Suppliers
- Team Members
- Theft & Pilferage
- Wages To Turnover Analysis
- Wastage
- Work In Progress

Please contact us as soon as possible to make an appointment for a business review on your business to be conducted.

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.

Contact us:

Collins Mellody

P: 03 9836 1533

F: 03 9836 3025

E: admin@colmel.com.au

W: http://www.colmel.com.au

259 Whitehorse Rd, Balwyn, VIC, 3103