2019 TAX PLANNING GUIDE

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ACCOUNTANTS & STRATEGIC BUSINESS ANALYSTS

JUNE 2019 YEAR END TAX PLANNING GUIDE

The end of another financial year will be here before we know it and many of our clients begin to think about their profit for the year and how much of this will be handed over to the taxman.

The purpose of this guide is to highlight some end of year tax planning opportunities to help you minimise your tax liability within the framework of the Australian taxation system. Of course, this guide does not replace specific tax planning advice that is customized to your entities and your circumstances. Our team will be in touch with you to schedule a tax planning meeting as soon as possible to assess your options and the steps you need to take before the 30th June, 2019.

Please note, the Federal Budget is scheduled to be handed down on Tuesday 2nd April 2019 and accordingly, some things may change. This guide is a pre 2019 federal budget guide.

For those clients scheduled to meet with us to discuss tax planning strategies, we will complete the following:

1. Using your latest figures (in most cases 31st March or 30th April), we will estimate your likely business taxable income up to 30th June 2019
2. Based on your business income and personal circumstances, we will estimate your likely personal taxable income position up to 30th June 2019 using tax effective strategies
3. If you have investment entities, we will also factor these into your overall estimates
4. For any remaining profits that are not able to be tax effectively distributed, we will meet to discuss various strategies that can be utilized to minimize the tax payable on this income subject to cashflow.
5. You will have a working estimate of tax due to be paid. Where applicable, we provide the tax payable on different scenarios we discuss with you. This knowledge allows you as the business owner to make decisions pre and post June with regard to planning cashflow for the estimated liability.
6. We also prepare a cashflow calendar that summarises the key dates and amounts of tax due in the upcoming 12 months for all of your entities (PAYG Instalments and primary tax due).

The following list of tax planning opportunities is certainly not exhaustive and depending on your circumstances (including your turnover and whether you are on a cash or accruals method of accounting), terms and conditions may apply to some of these strategies. If you would like to discuss your tax planning options we urge you to contact us today and most importantly, don't leave it until the last minute as some of these strategies require some time to implement.

Disclaimer: *This guide contains general information only. No responsibility can be accepted for errors, omissions or possible misleading statements. No responsibility can be accepted for any action taken as a result of any information contained in this guide. This guide is not designed to be a substitute for professional advice and does not take into account your individual circumstances.*

Tax Minimisation Strategies

CONSIDER THE FOLLOWING OPPORTUNITIES

1. Delay Deriving Assessable Income

Where this strategy will not adversely affect your cash flow, consideration should be given to deferring the recognition of income until after 30 June 2019. Please note, not banking amounts received before June 30 until after June 30 does not qualify because the income is deemed to have been earned when the money is received or the goods or services are provided (depending on whether you are on a cash or accruals basis of accounting).

- Cash Basis for specific income types - Some income is taxable on a cash receipts basis rather than on an accruals basis (e.g. rental income or interest income in certain cases). You should consider whether some of this income type can be deferred in those instances.
- Consider delaying your invoices to customers until after July 1 – this will push the derivation of the income into the next financial year and defer the tax payable on that income. If you operate on the cash basis of accounting you simply need to delay receiving the money from your customers until after June 30.
- Lump Sum Amounts - Where a lump sum is likely to be received close to the end of a financial year, taxpayers should consider whether this amount (or part thereof) can be delayed or spread over future periods.

2. Prepay Deductible Expenses or Bring Forward Losses

Prepayment of Expenses – If you qualify as a Small Business Entity (aggregated turnover less than $10million) you can consider pre-paying expenses prior to 30 June 2019. A tax deduction can be brought forward into this financial year for expenses such as:

- Employee Superannuation Payments including 9.5% Superannuation Guarantee Payments for the June 2019 quarter (note that the contributions have to be received by the Superannuation Fund by June 30, 2019 to claim a tax deduction and some funds specify cut off dates for contributions to be received in this regard).
- Superannuation for business owners, directors and associated persons
- Wages, bonuses, commissions and allowances
- Contractor Payments
- Travel and accommodation expenses
- Rent for July 2019 (and possibly extra months up to a maximum of 12 months in advance)
- Insurances
- Printing, stationery and office supplies
- Utility expenses – telephone, electricity and power
- Advertising
- Motor vehicle expenses such as registration and insurance
- Subscriptions and memberships to professional associations and trade journals
- Accounting fees
- Prepaid interest on loans

A deduction for prepaid expenses will generally be allowed where the payment is made before 30 June 2019 for services to be rendered within a 12-month period.

Note, if your business uses the cash basis of accounting, you will physically need to pay the above expenses prior to 30th June 2019 for them to be tax deductible.

If your business operates on the accruals basis of accounting (majority of our business clients), you simply need to be invoiced for the expense ie the invoice should be dated on or before 30th June 2019 – payment can be deferred until July and/or usual terms of trade. The exception to this is superannuation, wages/bonus payments, interest on loans – these must physically be paid prior to 30th June 2019 to be tax deductible.

While this strategy can be effective, we never recommend you spend money on items you don't need. However, paying for or incurring expenses in June that are due in July could save you some tax this year and provided your cash flow permits, it makes good business sense.

Capital Gains/Losses – the timing of the sale of assets is critical and deferring the sale until after June 30 will defer the tax exposure on the profit. Of course, if you have made other capital gains during the financial year it could be worth bringing forward the sale and crystallizing the loss if applicable, so you can offset it against the other capital gains. Note that the contract date is often the key date for when a sale has occurred for capital gains tax purposes, not the settlement date.

Businesses should also consider:

- **Stock Valuation Options** - Review your Stock on Hand and Work in Progress listings before June 30 to ensure that it is valued at the lower of Cost or Net Realisable Value. Any stock that is carried at a value higher than you could realise on sale (after all costs associated with the sale) should be written down to that Net Realisable Value in your stock records.
- **Compulsory Superannuation Guarantee** – as mentioned above, if you want a tax deduction in the 2018/19 financial year, the superannuation fund must receive the funds by 30 June 2019. The Tax Office doesn't consider a contribution to be made until the amount is actually credited to a super fund's bank account. Be careful of fund cut off dates as some are in early June. And of course, where possible, don't leave it to the last minute to make the contribution.
- **Repairs and Maintenance Costs** – Where possible and cash flow permits, consider bringing these repairs forward to before June 30. If you don't understand the distinction between a repair and a capital improvement, please consult with us. Some capital improvements may not be tax deductible in the current year and could be claimable over a number of years as depreciation (please also see information below regarding small business asset write off).
- **Write-Off Bad Debts** – if you operate on an accruals basis of accounting (as distinct from a cash basis) you should write off bad debts from your debtors listing before June 30. A bad debt is an amount that is owed to you that you consider is uncollectable or not economically feasible to pursue collection. Unless these debts are physically recorded as a 'bad debt' in your system before 30th June 2019, a deduction will not be allowable in the current financial year. Speak to our team or your bookkeeper if you are unsure of the process to complete this in your accounting records.

3. Purchase of Capital Assets

The end of the financial year is a pertinent time to review your current asset base and determine if the business will need any new capital equipment within the next 6 months. If so, then consideration should be given to the tax impact and cashflow impact of bringing forward this investment prior to 30th June.

Specifically, consideration should be given to:

- **Obsolete Plant and Equipment** - Review the assets on your fixed asset register and advise our team of any that should be scrapped prior to 30th June 2019. This applies to assets that you no longer hold (if they were sold, we will need to discuss the sale proceeds), that have minimal value left on the asset register or assets that the business no longer uses. Note, your fixed asset register forms part of the financial statements that our office prepared for you. If you need assistance locating your register, please contact the team.

- **New Equipment less than $20k** - If you qualify as a small business entity (turnover less than $10million), the government has extended the $20,000 instant asset write off until 30th June 2019 (subject to any changes announced in the budget). There is no limit on the number of different items that you can purchase. Each asset must be less than $20,000 (+ GST) to claim an instant tax deduction.

- **New Equipment greater than $20k** – If you qualify as a small business entity (turnover less than $10million), where you purchase an asset greater than $20k that does not qualify for the instant asset write off above, your asset will be depreciated via the small business depreciation pool. This pool is depreciated at a flat rate of 15% for new purchases and 30% each year thereafter

- **New Equipment for Large Business** – Where your business does not qualify as a small business entity (turnover greater than $10million), your instant asset write off threshold is $300 per item. For assets over this amount, they will be depreciated based on ATO deemed rates.

Here are some key points to consider in relation to purchase of capital assets:

- To be eligible, the asset must be purchased by a business turning over less than $10m
- The asset can be new or second hand
- The amount must be under $20,000 exclusive of GST (i.e. $22,000 including GST)
- If you borrow to purchase the asset the asset is still eligible
- The asset must be installed and ready to use by the deadline (for example, purchasing a car to be delivered in the future won't qualify until the car is delivered)
- To claim the write off on a motor vehicle you will need to have a valid log book and claim only that percentage of the cost as an immediate write off
- Trade-in allowances can't be used to offset the purchase price. E.g. you purchase a vehicle for $25,000 and receive a $7,000 trade-in (net invoice is $18,000). The value of the new asset will be the gross purchase price of the car (in this case $25k so not eligible for the instant write off) prior to any trade-ins.

- Any attempt to manipulate invoices etc. will attract the ATO's use of the anti-avoidance rules, thereby eliminating the $20,000 write off.
- Building structural improvements are not eligible for the instant write off
- Depreciating assets valued at more than $20,000 will be depreciated in one pool at a rate of 15% in the first year and 30% in future years
- If your pool balance at the end of the year is less than $20,000 before applying any other depreciation deduction, the entire pool balance can be written off. Our team review this annually.

4. Utilising Effective Tax Rates

One of the most effective ways to manage your tax obligations is to ensure that, where *possible and legal,* taxable income is reported and taxed in the most tax effective structure.

This will be customized to your particular circumstances and of course, subject to legislation and anti-avoidance provisions.

IS YOUR BUSINESS A "SMALL BUSINESS" ENTITY?

Per above, small businesses can access a range of tax concessions and to qualify as a "Small Business Entity", the business must have an aggregated turnover (your annual turnover plus the annual turnover of any business connected / affiliated with you) of less than $10 million and be operating a business for all or part of the 2019 financial year.

Small business tax concessions include:

- Reduced Company Tax Rates (provided you meet the base rate entity qualification)
- Access to small business offset (for sole traders/partnerships/beneficiaries of trusts)
- Access to instant asset write off concessions
- Immediate deduction for prepaid expenses (within 12 months)
- Simplified trading stock rules

REDUCTION IN COMPANY TAX RATES FOR SMALL BUSINESSES

The company tax rate for businesses with less than $25 million aggregated turnover and who satisfy the "base rate entity test" is now 27.5%.

If you use a Trust structure, one strategy is to allocate profits to a 'Bucket Company' and cap your tax at 27.5% for the 2019 year subject to eligibility criteria. Note in utilizing this strategy, there may be unintended future tax consequences such as Division 7A and clearing out retained earnings which may undo any tax benefit you receive. If you would like to investigate this option further, please contact our team so we can discuss your individual situation and circumstances.

CHECKLIST OF OTHER YEAR END TAX ISSUES

In addition to the above tax planning opportunities, consideration and action should be given to other items that form part of year end for many small businesses. We have noted the most common year end tasks below to assist you and of course, our team can support you with any of these matters.

If you use a Motor Vehicle in producing your income you may need to:

- Record Motor Vehicle Odometer readings at 30 June 2019
- Prepare a log book for 12 continuous weeks if your existing one is more than 5 years old. Please note, if you commence the log book prior to the 30th June 2019, the usage determined will still be appropriate for the whole of 2018/19. As such, it is not too late to start preparing one for the current financial year.

***If you have started an account-based pension (ie withdrawing superannuation to fund retirement)*:**
Ensure that you have withdrawn the annual minimum required pension amount. This is VERY IMPORTANT otherwise you risk losing your superannuation tax-free status. Our team will have discussed this with you if we manage your SMSF but if you are unsure, please contact our office.

If you are in business or earn your income through a Company or Trust:

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- **For Private Company - Div 7A Loans** - Business owners who have borrowed funds from their company (or trust in some cases) in prior years must ensure that the appropriate principal and interest loan repayments are made by 30 June 2019. Where we prepare formal tax planning estimates for your business group, our team will calculate and advise on the most appropriate action in this regard. For many of our business clients, managing division 7A loans and unpaid trust entitlements forms an integral part of our tax planning schedules and this will be managed and discussed in detail with you.

- **Trustee Resolutions** – Where you operate or invest via a discretionary (Family) Trust, you must ensure that the Trustee Resolves how profits will be distributed PRIOR to 30th June 2019. To comply with ATO requirements, a formal minute recording the trustee resolutions are prepared and signed before June 30, 2019. Please note we will be contacting you regarding your resolutions before the end of June 2019.

- Preparation of **Stock Count Working Papers** to calculate closing stock as at 30th June 2019.

- Preparation and reconciliation of **Employee PAYG Payment Summaries** (Group Certificates). These are due to be issued to your team no later than the 14th July and reported to the ATO no later than the 14th August 2019. Please contact our team if you require assistance with this report.

- Preparation of **Taxable Payments Annual Report (**TPAR) – for businesses that are in the construction, cleaning, security, courier or IT industry, certain payments to contractors are required to be reported to the ATO BY 28TH August 2019. Please contact our team if you require assistance with this report.

- **Single Touch Payroll –** From 1st July 2019, small employers with less than 19 employees will need to start reporting through STP, with some transitional provisions in place. Contact us today if you are not sure if this applies to your business.

SUPERANNUATION & TAX PLANNING

Note, we are unable to provide financial advice in relation to superannuation and whether a contribution is right for you. This type of advice must be provided by a licensed financial planner and we can connect you with the best advisors should you wish to discuss your superannuation in detail.

We work closely with your financial advisor regarding the tax savings and implications and together we can deliver a great outcome for you.

The information below is restricted to the general tax treatment of superannuation contributions and is in no way intended for or to be used as professional advice in this regard.

CONCESSIONAL CONTRIBUTION CAP OF $25,000 FOR EVERYONE

The tax-deductible superannuation contribution limit or cap is $25,000 for all individuals under age 75. Individuals over 65 need to satisfy a 'work test' to qualify.

Your $25,000 cap will include the following superannuation payments:

- 9.5% Super Guarantee Charge (ie minimum super you receive on top of your wages)
- Any amounts of superannuation that you have salary sacrificed
- Any other employer contributions (e.g. additional super over and above the 9.5%)
- Deductible contributions

For example, your employer may make contributions on your behalf of $10k per year. This would leave an additional $15,000 of your cap that you can take advantage of.

The advantage of making the maximum tax-deductible superannuation contribution before June 30, 2019 is that superannuation contributions are taxed at between 15% and 30% compared to personal tax rates of between 34.5% and 47%.

In the past, self-employed individuals and those who earn their income primarily from passive sources like investments made their super contributions close to the end of the financial year to claim a tax deduction.

However, the rules have been changed and individuals who are employees may also use this strategy. Individuals who may want to take advantage of this opportunity include those who work for an employer who don't permit salary sacrifice, those who work for an employer who do allow salary sacrifice (but it's disadvantageous due to a reduction in entitlements) and those who are salary sacrificing but want to make a top-up contribution to utilise their full concessional contributions cap.

There is also an ability to utilize prior year unused caps from 1st July 2019.

Note, we are unable to provide advice in relation to whether you should make a contribution into superannuation. This advice is strictly financial advice that should be provided by a licensed financial planner. We can connect you with an advisor should you wish to discuss this strategy further.

GOVERNMENT CO-CONTRIBUTIONS

Taxpayers who make personal (non-deductible and after-tax) contributions to a superannuation fund may be entitled to the government co-contribution of up to $1,000. The amount of government co-contribution will depend on your income and how much you contribute.

ADDITIONAL TAX ON SUPER CONTRIBUTIONS BY HIGH INCOME EARNERS

For the 2019 financial year, the income threshold at which the additional 15% (Division 293) tax is payable on superannuation contributions is $250,000. Where you are high income earner, this can come as a surprise and there are options to have this Division 293 tax funded out of your superannuation.

Where you are required to pay this additional Division 293 tax, making super contributions within your $25,000 cap may be a tax effective strategy. Your superannuation contributions will be taxed at a rate of 30% versus the top marginal rate of tax at 47%.

SALARY SACRIFICE TO SUPERANNUATION

Where your personal marginal tax rate is 19% or more, salary sacrificing can be an effective way to boost your superannuation and also reduce your tax. By putting pre-tax salary into superannuation instead of having it taxed at your normal marginal tax rate you may save tax. This can be particularly beneficial for employees approaching retirement age. This strategy should be discussed with your financial planner.

SELF-MANAGED SUPERANNUATION

An SMSF may provide significant tax savings but they are not for everyone. With the end of the financial year approaching now is a good time to discuss the pro's and con's of a SMSF with your financial planner to assess whether it might be appropriate for your circumstances. Whilst we cannot discuss this with you, we can connect you with an advisor that works closely with us on these matters – bottom line, please seek professional and independent financial advice before you establish an SMSF.

We are here to help

We hope this guide has been helpful in highlighting some key areas for consideration as we approach the end of the financial year. Of course, this guide does not replace personalised advice suited to your individual circumstances and our team will be in touch (if not already) to discuss your 2019 tax planning goals and we look forward to working with you soon to plan for the best possible tax outcome for you and your business.

In the meantime, if you have any queries, we would love to hear from you, our office number is (07) 5437 7624 or email direct to your accountant.