

## TOP STRATEGIES FOR THE YEAR END

### Ten Year End Tips For Business Owners

- 1 Trading stock** – Plan to physically count the stock on hand at 30 June. If it is not practical to have it completed by that date ensure that you are able to track movements in and out from sales and purchases.
- 2 Directors' fees** – A company may be able to claim a deduction for directors' fees, even if those payments were not made during the income year. To ensure you qualify the company must have a commitment to pay a specified amount and the amount needs to be provable, for instance by passing of a resolution.
- 3 Deferring income** – Simplified Tax System (STS) and non STS small businesses that recognise income on a cash basis are assessed on income as it is received. A simple way to defer tax is simply to delay "receipt" of the income until after 30 June 2007.
- 4 Fixed assets** – Review last year's fixed asset register to determine if assets listed still exist. Identify missing items and list new ones acquired.
- 5 Maximise super contributions** – Subject to eligibility, you can make age based contributions. A useful strategy to reduce tax and build up wealth outside your business.
- 6 Repairs and maintenance** – Review all spending during the year to determine if all items are deductible or if they are capital by nature and need to be depreciated.
- 7 Obsolete stock** – The year end stock take should involve a review of all stock and a decision made in relation to its value from both a tax and commercial perspective. When reviewing inventory be mindful of the age of the items, likelihood of future sales and it's scrap value. You may need to consider saving storage space and selling at cost (or less) or even scraping.
- 8 Review private loans** – Where a private company provides loans to shareholders, a review of the loan arrangement is necessary. Specific rules apply to loans which may have the effect of the loans being deemed as unfranked dividends.
- 9 Bad debts** – Review all bad debts before year end. In order to write off a debt it must be bad, not merely doubtful and must have been previously included as assessable income. You need to be able to substantiate a claim for a bad debt.
- 10 Staff bonuses and commissions** – As with directors' fees a company may claim a tax deduction for staff bonuses and commissions that are unpaid at 30 June 2007 provided that they were "definitely committed" to the expense prior to that date. This also applies to wages that have been accrued at 30 June 2007 but not paid until after that date.

## MANAGE YEAR END CGT EXPOSURE

Here are three simple ways to reduce or eliminate your exposure to Capital Gains Tax (CGT)

► **DEFER SELLING PROFITABLE ASSETS** - If you must sell a profitable asset, consider delaying the sale until after 30 June 2007. By taking advantage of this strategy, you can defer paying CGT. Because CGT is generally payable by individuals when a tax return is lodged for the financial year in which an asset is sold, you may be able to delay paying tax on your capital gain for up to 12 months.

If you expect your circumstances to result in a reduction in taxable income next financial year, say due to retirement or other reasons, the marginal tax rate you are required to pay on realised capital gains in 2007/08 may decline significantly.

► **UTILISE LOSSES** - If you have an obligation to pay CGT this financial year, consider selling poor performing assets before 30 June 2007. By doing this, you could reduce your CGT this financial year and release funds for more suitable investment opportunities.

► **CONTRIBUTE TO SUPER** - If you make a capital gain on the sale of an asset this financial year, consider making a tax-deductible contribution into superannuation before 30 June 2007. Subject to eligibility, you may be able to save on CGT this financial year and increase your after tax investment.

To take advantage of this option you must be self-employed or under 65 and recently retired. Some others also apply. Qualification as self employed means that your assessable and exempt income from eligible employment (plus reportable fringe benefits) must be less than 10% of your total assessable income (plus reportable fringe benefits).

By using the proceeds from the sale of an asset and making a tax deductible superannuation contribution for the full amount of the taxable capital gain, you may be able to reduce (or eliminate) your CGT liability.

### WE ARE HERE TO HELP

Make good use of us! This guide is merely a starting-point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us early for help in taking advantage of tax-saving opportunities and tax-efficient investments.

We are always pleased to discuss matters with you and advise in any way we can.

# CLIFTONS YEAR END STRATEGIES

THE 2006/07 TAX GUIDE FOR YOU & YOUR BUSINESS

## BEFORE THE LAST MINUTE...



There are some occasions in life – such as booking holidays or theatre tickets – when you might save money by leaving things to the last minute. However, tax and financial planning needs consideration, discussion with your family, business partners and advisers, and time to come to fruition. Leaving it until the last minute is probably the worst thing you can do.

Although some strategies can still be carried through late in the day, many require saving, preparation, drafting of documentation, research and so on before they can be put into practice and we really would recommend that whatever your year end, you consider tax and financial planning as a year-round subject.

The current tax year ends on 30 June 2007 and any planning for the 2006/07 tax year needs to be put into effect a few days before then at the very latest.

We have prepared this guide to highlight some of the strategies applicable to the greatest number of our clients. We would welcome the opportunity to discuss those strategies which might be applied to your own personal and business circumstances.



## THE "GOLDEN EGG" OF SUPERANNUATION

The past 12 months has been very attractive from a superannuation perspective. The abolishment of Reasonable Benefits Limits generally means that you can access your super tax free after age 60. In addition to this, superannuation funds earnings are taxed at concessional rates.

With these advantages in mind, the challenge is to maximise investment in superannuation and the Government has provided an attractive one off opportunity to do just that.

Until 30 June 2007 individuals have the opportunity to make an after tax contribution of up to \$1 million into their super fund. After this date, there will be a limit to the maximum contribution to \$150 000 each year. Individuals under 65 may be eligible to bring forward two years worth of contributions and make a contribution of \$450 000 in one year.

If you don't have access to money to enable you to make the contributions, don't despair. A crucial feature is that you do not necessarily have to make the contribution in cash. Small business owners have the opportunity to take advantage of business real property by transferring it to a self managed superannuation fund (SMSF) at a suitable market value. This strategy may also be used if transferring shares or units in a managed fund to a self managed fund.

Other options that are available include borrowing to contribute, leveraging against equity in property or if necessary, selling assets. All of these options require time and planning. If you are considering taking advantage of this opportunity you will need to act promptly.



ACCOUNTANTS

Clifton Professional Accountants

Suite 2  
6 Bunberra Street  
Bomaderry NSW 2541

P: 02 4421 5866  
F: 02 4423 7819

E: admin.bomaderry@cpaaccountants.com.au



ACCOUNTANTS

Clifton, Doherty & Harwood Pty Ltd

Suite 8, 1st Floor  
409 Bong Bong Street  
Bowral NSW 2576

P: 02 4861 2811  
F: 02 4862 1009

E: admin.bowral@cpaaccountants.com.au

## TOP STRATEGIES FOR THE YEAR END

### Ten Year End Tips For Property Owners

- 1 Substantiate your claim** – You will need to make sure that you have the receipts to prove your deduction and show why the expense was incurred to derive assessable income. This also means being able to demonstrate that the expense was not for private purposes.
- 2 Repairs at time of purchase** – Expenses for repairs to property are generally deductible provided that they relate to wear and tear or other damage as a result of earning rental income. The cost of repairs to remedy defects that existed at the time you purchased the property is not deductible.
- 3 Immediate deductions for low cost assets** – Generally you will receive a deduction for assets costing \$300 or less provided that they are used for income producing purposes other than carrying on a business, they are not part of a set of assets, or one of a number of identical items that have a combined value of greater than \$300.
- 4 Travel and car expense** – If you have travelled to inspect, carry out maintenance or collect rent you may be able to claim the costs of travelling as a tax deduction. Travel expenses incurred exclusively for these purposes are generally deductible and a partial deduction may be available if combined with travel for private purposes.
- 5 Non commercial rental arrangements** – If you rent a property to family or friends at below market rent you may not claim the total rental property expenses as a deduction.
- 6 Prepay property expenses** – If you prepay rental property expenses such as insurance or interest on borrowings and that expense covers a period of less than 12 months you may claim the immediate deduction and defer your tax liability.
- 7 Prepare a depreciation schedule** – You may consider having a depreciation schedule prepared by a qualified quantity surveyor. The costs of having one prepared are tax deductible and may add a significant tax deduction for depreciation.
- 8 Short term holdings** – If you have renovated a property with the view to selling at a profit in the short term, you may find yourself taxed as a “profit making scheme”. This means you will not be able to take advantage of CGT concessions.
- 9 Renovations by previous owner** – You may be eligible to depreciate the cost of improvements by a previous owner provided these are separately identifiable and itemised in a depreciation schedule showing relevant details.
- 10 Acquisition and disposal costs** – You cannot claim the costs of either acquiring or disposing of your property. However, you will need details of these costs. Acquisition costs form part of the cost base and if you fail to adequately document these costs you may find yourself with a higher tax liability.

## TRAVEL ALLOWANCES FOR OVERNIGHT BUSINESS TRIPS

Have a company or trust, you are paid a salary and travel in the running of your business? Take advantage of the ATO not requiring substantiation of travel expenses incurred when an employee (you) receives a travel allowance, and there are then set costs which you can claim as a deduction which in many cases are more than costs you will incur. Next time you travel consider paying yourself an allowance of, say \$150 per day, as you can then claim a deduction of up to \$252 per day, depending on where you travel to.

## YEAR END TAX PLANNING

### Simplified Tax System

When preparing your 2006 Business Tax Returns Cliftons, your Business Specialist Accountants, will automatically review your taxable position and if you will benefit, will change you over to take advantage of the increased depreciation and other changes, but not without consultation with you.

## ARE YOU SAVING ENOUGH FOR YOUR RETIREMENT?

If you are relying on the Government to fund your retirement, you may be disappointed, since it provides little more than the bare minimum! To give your savings time to grow, it is important to provide adequately for retirement as early as possible.

We've outlined three tax effective strategies below to help you build your retirement savings.

### Government co-contributions

#### How does it work?

If you make a personal contribution to your superannuation fund any time before the end of the financial year, the government will match your contributions on a three-for-two basis. The maximum Government co-contribution amount available is \$1 500 which is based on a personal contribution of \$1 000 for those with assessable earnings of \$28 000 or less.

The co-contribution is reduced by 5c for every \$1 of income above \$28 000 and ceases once your assessable income reaches \$58 000.

Using this strategy you can generate a 150 per cent, tax-free return on your investment within one year.



#### Who is eligible?

You will be eligible for the super co-contribution in a year of income if:

- ▶ you make personal superannuation contributions to a complying superannuation fund
- ▶ your total assessable income is less than \$58 000
- ▶ 10% or more of your total income is from eligible employment
- ▶ you do not hold an eligible temporary resident visa at any time during the year
- ▶ you lodge an income tax return for the year of income
- ▶ you are less than 71 years old at the end of the year of income

If you qualify you should consider making a personal contribution to take advantage of the maximum co-contribution amount available to you.

### Make personal super contributions

#### How does it work?

If you make a contribution to a complying superannuation fund or retirement savings account you may be able to reduce your taxable income. These do not include contributions that your employer makes under the superannuation guarantee or those made by your employer under a salary sacrifice arrangement.

There is a limit to the amount you can claim as a deduction. For the 2006-2007 year it is the lesser of:

- ▶ the first \$5 000 contributed, plus 75% of any amount contributed above that, or
- ▶ an aged based maximum (shown in the chart below)

It is important to note that contributions may only reduce your taxable income to nil.

AGE IN YEARS	MAXIMUM DEDUCTION (2006-07 FINANCIAL YEAR)
Under 35	\$15 260
35 to 49	\$42 385
50 to 70	\$105 113

#### Who is eligible?

In order to be able to claim the deduction for contributions you must be under the age of 70. Individuals under 65 are automatically eligible whilst those aged between 65 and 69 are subject to limits.

You must also satisfy one of two tests:

- ▶ Unsupported person. You do not qualify for employer superannuation support for the financial year; or
- ▶ 10 percent rule. Your assessable income, exempt income and reportable fringe benefits from eligible employment is less than 10 per cent of your total income assessable income and reportable fringe benefits.

If you plan to claim a deduction for personal contributions you also must write to your fund and notify them of your intention to do so, setting out specific details and you must have acknowledgement of receipt from your fund before you can claim the deduction.

### Contribute super on behalf of your spouse

#### How does it work?

You can receive a tax offset for making a contribution to your spouse's super fund if their assessable income is less than \$13 800. The strategy involves making a contribution after-tax into a spouse's superannuation fund.

The maximum offset available is \$540 based on 18 percent of the maximum rebatable contribution of \$3 000 for a spouse with assessable income of \$10 800 or less. The offset reduces as your spouse's income increases and ceases when it reaches \$13 800. The offset is also reduced if the contribution falls below \$3 000.

Because it's a tax offset, you can only reduce the amount of income tax otherwise payable to nil. You cannot obtain a refund of the excess amount, but you'll make a direct saving against your income tax liability.

#### Who is eligible?

Individuals with spouses on low incomes who wish to boost their partner's super savings and at the same time reduce their tax obligations.