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YEAR-END TAX TIPS

As the financial year draws to a close, it is timely for individuals and small businesses to consider the following year-end tips.

Record Keeping

Records are normally required to be retained for tax purposes for at least five years, but special requirements apply in some areas. For example, in the case of capital gains tax and the substantiation rules, records have to be held for longer periods.

Work-Related Expenses (WREs)

The Australian Taxation Office's compliance program for 2007 again focuses on over-claiming of employees' work-related expenses. Such expenses typically include employee claims for expenditure incurred on items such as travel, uniforms, subscriptions, union fees and self-education.

Dividends & Interest

To ensure that interest and dividends are returned by taxpayers, the Tax Office matches information provided in tax returns with information from external sources.

And don't forget to put in your imputation credits. The best way to avoid trouble here is to include all such income in your return and retain supporting documents such as bank and company dividend statements.

Rental Properties

The Tax Office is maintaining its strong focus on this area because of the large amount of revenue involved. The types of things the Tax Office looks out for are repairs versus improvements, ensuring the property was really a rental property (and not just your weekender), and that interest on any property loans was correctly claimed.

Certain building capital works (including construction and improvement costs) may be written off as a tax deduction over a 40-year period (2.5 per cent per annum).

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Capital Gains Tax

This area is closely monitored, so make sure that you keep all relevant records to support the details provided in your return. You should also check your eligibility for the general 50 per cent discount and, if you are a small business owner, the various small business CGT concessions, which have recently been enhanced and now apply to a wider range of businesses.

Aggressive Tax Planning

Taxpayers should continue to be cautious about year-end tax schemes, and carefully consider all the information in the market on this type of higher-risk investment. This includes product rulings and taxpayer alerts issued by the Tax Office. You should stick with those products that have Tax Office product rulings, but note that these are not intended to be any guarantee of an investment's profitability. Also, they may not be worth much if the investment venture is not aligned with the business plan as set out in the original prospectus.

There have been recent changes to agribusiness managed investment schemes, a 12-month transition period now applying. New rules have also been proposed for forestry schemes.

Salary Packaging & Fringe Benefits

This can be a useful way to obtain some tax savings, particularly if you are on the top marginal tax rate and your employer offers it. Some of the most common and tax-effective items to consider include superannuation, laptop computers and motor vehicles.

Note that your employer will include the reportable fringe benefit amount on your payment summary, which must be included in your tax return. This may impact on your liability for Medicare levy and entitlement to certain benefits.

Business owners should note that fringe benefits tax may be applicable to entertainment expenses (from business lunches to tickets for sporting events), company motor vehicles, some directors' loans or a range of other benefits received by employees and directors.

Family Tax Benefit

Family tax benefit (FTB) is available to eligible families (including sole parents) with children. You can claim the FTB as a direct payment from CentreLink, or as a lump sum via your tax return or periodically through reduced PAYG withholding payments. But make sure you don't 'double dip'.

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Rebates

Tax rebates (or offsets) can reduce your tax bill, so it pays to know what you are entitled to. What you can claim depends on the level of your income and family circumstances. Examples, subject to satisfying certain criteria, include certain childcare expenses, private health insurance, medical expenses, dependent spouse rebate, low-income rebate and the tax offsets for mature-age workers and senior Australians.

A 25 per cent entrepreneurs tax offset is also available to STS taxpayers.

Stock on Hand

It's not sufficient to simply make an estimate of your stock, or to take a guess. Each year you need to include a value in your accounts of stock on hand and work-in-progress at 30 June. Closing stock can be valued at cost, replacement or market value or less if obsolete, but you have to document which method you use.

What about private Company loans?

It is important to ensure that private company loans that extend beyond the end of the income year are properly documented, to ensure that a tax liability is not triggered under the tax rules in this area. Adequate annual repayments of a properly documented loan are also required.

Claiming Bad Debts

If you want to claim for bad debts, remember that they must be bad and written off before the end of the financial year. To do this, the debt must generally have been brought to account as assessable income and you must have given up all hope, and more importantly, all action for recovery.

Reviewing Assets

It's too easy to carry assets on your books that have no real value, are obsolete or have been scrapped.

The only way to get a write-off deduction for them is to review your asset register and take the necessary action before 30 June. The asset register is the list you should be keeping of all plant, equipment, furniture, fittings and any other assets, including all items bought, sold or disposed of during the year.

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What's the Simplified Tax System (STS)?

The STS is a special regime for very small business taxpayers. Its key attractions are the \$1,000 write-off rules and the accelerated depreciation on business assets. More recent improvements to the regime include its extension to businesses that do their accounting on an accruals basis and reducing the audit review period for such taxpayers from four to two years.

If you are not already in the STS, you may wish to consider if you qualify and whether you should elect into the regime. To obtain the STS benefits for 2007, the election must be lodged with the Tax Office when you lodge the income tax return for your business for the year ended 30 June 2007.

Prepayments

Most business taxpayers must pro rata the deduction for prepaid expenses over the period to which the expenditure relates. Restrictions also apply to prepayments by investors in certain agri-forestry investments. However, individual non-business and STS taxpayers can prepay some expenses up to 12 months in advance.

Superannuation

Employers must ensure they have made sufficient superannuation contributions (9 per cent) for all employees on a quarterly basis throughout the financial year to avoid the risk of incurring a penalty under the Superannuation Guarantee Charge regime.

Eligible superannuation contributions for the June quarter must be paid by 30 June 2007 to be tax deductible and to avoid penalty. Book entries alone are not enough. Even if you miss the 30 June deadline for deductibility, you must make the payment by 28 July 2007 to avoid SGC penalties.

If you are substantially self-employed or under age 65 and no longer in the workforce, you can claim a deduction on any superannuation contributions that you have made on your own behalf, with a full deduction up to \$5,000 and a deduction for 75 per cent of the amount above this. As for employees, the maximum deduction available is equal to the taxpayer's age-based limit.

Although most of the government's new simple super rules apply from 1 July 2007, transitional rules apply to non-concessional contributions of up to \$1m made to a superannuation fund between 10 May 2006 and 30 June 2007. Care should be taken to ensure that the prescribed limit is not exceeded, since tax at 46.5 per cent may apply to excess amounts in some circumstances.

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If non-concessional contributions made before 6 December 2006 exceed the cap, your super fund can release the excess amount on request. However, post 6 December 2006 contributions cannot be released. The following items count towards the non-concessional contributions cap: personal contributions for which you do not claim an income tax deduction; spouse contributions made to your super fund account; amounts transferred from foreign super funds (unless agreed to by your fund); and the part of your employer's contribution that exceeds your age-based deduction limit.

Personal Services Income

The Personal services income (PSI) measures are designed to limit the level of deductions available to certain contractors whether they are operating as a sole trader or through a company, trust or partnership, and to also extend the PAYG withholding rules in such cases.

A taxpayer that meets certain specified tests such as the 'results' test will be treated as carrying on a personal services business and will be able claim a wider range of deductions. But PSBs need to be aware of the Tax Office's strict approach to income retention and income splitting (with some exceptions such as for standard 'mum and dad' partnerships).

Non-Commercial Losses

For a business to be commercial under these rules, it needs to meet certain prescribed tests. If the tests are not met, any losses arising from the activities will have to be carried forward and offset in a later year, against future income of the same type or source.

At-Call Loans

A carve-out from the rules applicable to certain related-party at-call loans is available for small businesses that have an annual turnover of less than \$20m. The carve-out or exemption applies from 1 July 2005, which was the end of the earlier transition period.

Is there anything else?

Don't forget the substantiation rules that apply to motor vehicles, travel expenses and WRE claims by employees. Records itemising travel expenses and appropriate receipts for other expenses need to be kept.

Reference: CPA Australia "In The Black" June 2007, volume 77:05, pp. 54-55.