



**Chartered
Accountants**

May 2010 Newsletter

Year End Tax Planning

Tax planning involves arranging affairs in order to comply with the income tax legislation at the lowest possible cost. As such, tax planning is contrasted from tax avoidance, which is the entering into a scheme in order to obtain a tax benefit and can result in significant penalties.

As 30 June approaches clients should engage in tax planning, many strategies require action prior to 30 June in order to be effective.

The following items are by no means exhaustive but provide a number of issues for consideration.

Deferring Income

Income is assessable when derived, the timing of derivation will depend on if the cash or accrual basis applies. In any event, tax planning should consider the timing of deriving income.

- Income received in advance of services to be provided will generally not be assessable until the services are provided. Ensure that your accounting records separately identify such income.
- Taxpayers who provide professional services may consider rendering accounts after 30 June. Work in progress of such businesses is not included in assessable income.
- Consider deferring the disposal of assets that have been held for less than 12 months in order to access the 50% CGT discount where available.
- Individual taxpayers may consider contributing some or all of a capital gain to their superannuation fund, a deduction may be available for such personal superannuation contributions.
- Consider the timing of asset disposals before or after 30 June in terms of applicable tax rates, realised capital gains and losses and the availability of any capital gains tax concessions. However, be mindful of the tax office's negative view of 'wash sales' where an asset is sold and then reacquired in order to realise a capital loss.

Maximising Deductions

Expenses are deductible when the expense has been incurred, this is generally defined as when there is definite commitment to the expense even if no actual payment has occurred.

Therefore tax planning should consider the timing of expenses being incurred.

Business taxpayers

- Debtors should be reviewed prior to 30 June to identify and write off any bad debts.
Note that before the debt can be considered bad appropriate steps must have been taken to attempt to collect the debt. Such steps may include contacting the debtor, issuing reminder notices or taking more formal action.
- A deduction may be available for obsolete stock, stock should be reviewed and obsolete items written off or reduced in value where appropriate.
Relevant considerations include the stock being out of use, out of date, unfashionable or outmoded.
- Review the asset register to identify any low-cost assets eligible for immediate write off and assets no longer held which should be written off.
- Employees' superannuation contributions should be paid before 30 June in order to be eligible for deduction this year.
Only contributions received by the superannuation fund by 30 June are tax deductible in that year.
- Ensure that all incurred expenses, including trade creditors, are processed reflecting the appropriate timing.
- Planned deductible expenditure could be brought forward and incurred in the current year.

- Bonuses may also be deductible if they are incurred by 30 June.
For this to be the case the employer must be definitely committed to the bonus, the bonus cannot be subject to any later discretion or review.
- Cashflow permitting, consider prepaying expenditure where an immediate income tax deduction is available.

Such expenditure includes salary or wages and expenditure that is less than \$1,000.

Further, small business entities may claim a deduction for expenditure that satisfies the 12 month prepayment rule (the relevant service period does not exceed 12 months and ends in the next financial year).

- Businesses may be eligible for the once off deduction (tax break) for investment in new tangible depreciable assets or new investment in existing assets made from 13 December 2008 until 31 December 2009.

The tax break is based on a rate of 50%, 30% or 10% depending on the type of business entity, when the investment commitment was made and when the asset is first installed ready for use.

The tax break is available in the year the depreciable asset is first installed ready for use.

Businesses should ensure that depreciable assets that are eligible for the tax break are installed ready for use by 30 June in order to claim the tax break in the current year.

Further, non small businesses that committed to expenditure prior to 30 June 2009 in order to be eligible for the higher 30% tax break are required to have such assets installed ready for use by 30 June 2010. If this does not occur, then the tax break available reduces to 10%.

Non-business taxpayers

- Cashflow permitting, investors should consider prepaying interest on investment loans in order to obtain a deduction in the current year.

- Assets costing \$300 or less may qualify for an immediate deduction subject to certain conditions.
- A deduction for personal superannuation contributions may be available where less than 10% of assessable income is received from activities that are conducted as an employee for superannuation guarantee purposes.

Superannuation

- Low-income earners (including self-employed persons) may consider making a personal superannuation contribution to qualify for the government superannuation co-contribution payment.
- Remember when making concessional superannuation contributions that the relevant cap was reduced from 1 July 2009 to \$25,000 per annum, or \$50,000 per annum for those aged over 50.
- During the 2009/10 income year, the minimum required pension amount to be drawn from a self managed superannuation fund was halved.
- From 1 July 2009, a person's 'reportable superannuation contributions' is included in their 'adjusted income' when determining their eligibility for various tax offsets and social security benefits, such as the, the pensioner tax offset, senior Australians tax offset, and the spouse superannuation tax offset.

Individual Income Tax Rates Effective 1 July 2010

The following changes to individual income tax rates and thresholds are effective from 1 July 2010:

- The threshold for the 30% tax rate increases from \$35,001 to \$37,001; and
- The 38% tax rate decreases to 37%.

Note that these amounts and various other tax related rates and thresholds may be confirmed, or amended, in the upcoming Federal Budget, or by the tax office as 1 July approaches.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this Bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.