May 2011 Newsletter

Tax Planning for the Year Ended 30 June 2011

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

The approach of 30 June should serve as a reminder for taxpayers to engage in tax planning, many strategies require action prior to 30 June in order to be effective. The following items can form part of legitimate tax planning, they are by no means exhaustive but provide a useful foundation.

Tax Planning: Income

Tax planning should consider the timing of deriving income. A non-business taxpayers' income is generally assessable when received. Business income is assessable when derived, the timing of derivation will depend on if the business applies the cash or accrual basis.

- Ensure that any income received in advance is identified as this may not be assessable until the services are provided. For this principle to apply, the accounting records must classify the unearned income separately from the income already earned.

- Taxpayers who provide professional services may consider rendering invoices after 30 June. Work in progress of such businesses is not included in assessable income.

- 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, such as the 50% discount, small business CGT concessions or rollover relief. 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.

Tax Planning: Expenses

Tax planning should consider the timing of expenses being incurred. 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.

- Debtor ledgers should be reviewed prior to 30 June with amounts considered bad written off. Only debts that are bad can be claimed, a provision for doubtful debts is not deductible.

- 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 Relevant considerations include the stock being out of use, out of date, unfashionable or outmoded.

- Ensure that all incurred expenses, including trade creditors, are processed reflecting the appropriate timing. Further, 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. Further, the amount must be determined or be able to be calculated by 30 June, even if the actual calculation happens at a later date.

- 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. Investors may consider prepaying interest on investment loans. 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).

- Superannuation Guarantee Levy amounts should be paid by 30 June, only contributions received by the relevant superannuation fund by 30 June are tax deductible in that year.

- Review asset registers to identify any low cost assets eligible for immediate write off, opportunities to pool assets achieving accelerated depreciation and assets no longer held which should be written off.

- 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. Note that assessable income includes capital gains, so this test may be passed in years where a capital gain is realised. Note that the concessional contributions cap is $25,000 ($50,000 for those aged 50 to 74).

- Self Managed Superannuation Funds that are in 'pension mode' should ensure that the 2011 minimum pension amounts are paid to members by 30 June 2011. Please contact us if in doubt as to what payments are required.

- Low-income earners (including self-employed persons) may consider making a personal superannuation contribution to qualify for the government superannuation co-contribution payment. Further, taxpayers with a low income earning spouse may consider making a superannuation contribution for their spouse where they qualify for the related tax offset.