mOneypenny - Business and Taxation Services

Attachment – Tax Tips

1) Deferring Income

- Most taxpayers will not be assessed on interest, dividends, royalties, insurance proceeds, or rent until the money is physically received (or paid/credited on their behalf); otherwise, it may be deferred.
- Some types of income may be deferred – as per the Arthur Murray case, taxpayers may be able to defer recognition of income which relates to services not yet performed.

2) Accelerating Deductions

- Ensure that superannuation contributions are paid by year-end (see above for more details).
- Write off bad debts before year-end (see para 5).
- The outlay for deductible expenses may be brought forward - for example, prepayments for the next 12 months (see para 7).
- Consider scrapping stock and plant and equipment of nil value before year end
- Value closing stock at a lower replacement price or market value, where appropriate (see para 6)

3) Repairs

It is generally beneficial to incur expenses for repairs and maintenance on or before 30 June. However, the expenses will be depreciable rather than an upfront deduction if they are:

- Initial repairs – eg, painting & carpeting a newly acquired rental property prior to having tenants move in.
- Substantial replacement of an asset.
- Improving or enhancing an asset, over and above its original working condition.

4) Gifts

- Donate gifts to tax-deductible charities on or before 30 June.
- Check that the charity is approved by the Australian Tax Office as a "deductible gift recipient" (eg, overseas charities may not qualify).
- Not deductible if it is possible that some benefit may be received by the donor (eg raffle tickets or charity dinners).

5) Bad Debts

- Review and physically write off bad debts before 30 June
- Has there been a change in the ownership or control of the company or trust? If so, bad debts may only be deductible if the company passes the same business test.

6) Trading Stock

- Should try to minimise closing stock by year end.
- Use the lowest (and thus, most beneficial) of 3 valuation methods: Cost, Market Selling Value, or Replacement Price – the Cost method is the most frequently used.
- Scrap unwanted stock by 30 June.

7) Prepayments/advanced expenditure

Deductible expenditure is generally fully deductible in the year it is incurred. However, there are special prepayment rules that generally do not allow current year deductions for "pre-payments" i.e expenditure which relates to future tax years.

However, if you are in the Simplified Tax System (STS) you may be able to take current year deductions for:

- Prepayments relating to services or benefits which will be received within the next 12 months (eg pre-paid insurance or subscriptions)
- Expenditure under $1,000.

8) Non-commercial losses

Losses from a business carried on by an individual or partnership are "quarantined" and generally deductible only against income from that business. However, the losses will be deductible against other income if:

- Turnover from the business is $20,000 or more,
- The business has made a profit in 3 out of the previous 5 years,
- The business is a Professional Arts Business (this is only valid if the individual's other gross income is less than $40,000).

Therefore, before making large business purchases on the assumption that the loss will be offset against your other income, first consider whether the business loss will have to be quarantined under these provisions.

9) Home Office Expenses

- A portion of rent and insurance may be deductible if you are carrying on a business from home and the work area is separate and distinguished from private living areas.
- If you wish to make home office claims, please provide us with a floor plan, clearly showing measurements of the home and your work area.
- Interest on mortgage – If you claim a home office portion of the interest on your mortgage, there will be proportionate capital gains tax implications upon sale of your home.

10) Depreciation

- Scrap all obsolete items by 30 June
- Consider delaying disposal of plant items for a profit, until after 30 June
- Consider bringing forward disposal of plant items for a loss, prior to 30 June

11) Sale of Investments

- Consider delaying sale of investments (such as shares) until after 30 June to delay capital gains tax for a year.
- Use capital losses to offset against capital gains (please note that gains on sales of depreciable assets cannot be offset against capital losses).
- Consider if 50% CGT discount for individuals and trusts is available (1/3 discount for super funds) if the asset has been held for more than 12 months.

12) Personal Services Income ("PSI")

Do you or an entity that you work for (personal services entity) receive income that is mainly for the reward of your personal efforts or skills (e.g. consultants)? If so, you or your entity's deductions may be restricted, and the entity's income included in your individual tax return under the PSI provisions.

However the PSI rules do not apply on a Personal Services Business (PSB) if you pass the:

Results test

- Paid to achieve result of outcome (e.g. a journalist commissioned to write an article)
- You provide your own tools or equipment (if necessary)
- You are liable to rectify or pay for defects in your work

OR

80/20 and Business Tests

- Less than 80 per cent of your personal services income comes from one source, AND
- You meet one of the other three personal services business tests (the unrelated clients test, the employment test, or the business premises test),

13) Private Company Loans (Directors Loans)

- If a loan is made by a company to directors or shareholders it will be deemed a Division 7A dividend unless the loan is repaid by the end of the year, or the loan is made under a written agreement on commercial terms with a minimum benchmark interest rate and repayment terms of a maximum of 7 years for unsecured loans and 25 years for secured loans.
- The statutory minimum rate of interest is prescribed by the ATO every year.
- In subsequent years the loan will be deemed to be a dividend if the minimum repayments are not made by the end of the year.

Loans from Trusts

Loan from a trust will be a Division 7A deemed dividend where:

- The trust has a corporate beneficiary,
- The trustee has not paid the distribution to the company, and
- The trustee has given a loan to the company's shareholder or associate.

In this scenario, the loan will be deemed to have been made from the company. Please note that currently, establishing a commercial loan agreement in the scenario will not get around the deemed dividend provisions. However, proposed amendments to these provisions may change this.