MGR ACCOUNTANTS
YOUR BUSINESS ADVISORS FOR LIFE

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JUNE 2019 YEAR END TAX PLANNING GUIDE

The end of another financial year is fast approaching and as your accountant, we believe part of our client brief is to help you minimise your tax liability within the framework of the Australian taxation system.

The purpose of this newsletter is to highlight some end of year tax planning opportunities, but you need to act quickly and we encourage you to schedule a meeting as soon as possible to assess your options and the steps you need to take well before the 30th June, 2019.

Please note, this is a pre-Federal Election Guide and things may change after May 18, 2019.

To assist you we have put together a list of strategies to consider and note:

⇒ To maximise benefits for the current financial year, we suggest you prepare a preliminary calculation of your taxable income for the year ending June 30, 2019 to establish if you have a tax 'problem' and identify the size of your likely tax debt.

⇒ Review all tax-deductible expenses and assessable income in the latest available figures to determine the possibility of pre-paying some expenses before June 30 or deferring some revenue until after July 1.

The following list of tax planning opportunities is certainly not exhaustive and depending on your circumstances (including your turnover and whether you are on a cash or accruals method of accounting), terms and conditions may apply to some of these tactics. If you would like to discuss your tax planning options we urge you to contact us today and most importantly, don't leave it until the last minute as some of these strategies require some time to implement.

Tax Minimisation Strategies

CONSIDER THE FOLLOWING OPPORTUNITIES

1. Delay Deriving Assessable Income

One effective strategy is to delay deriving your income until after June 30, 2019 by:

a. Delaying the Timing of the Derivation of Income until after June 30.
b. Timing of Raising Invoices for Incomplete Work (Businesses)

Where this strategy will not adversely affect your cash flow, consideration should be given to deferring the recognition of income until after 30 June 2019. Please note, not banking amounts received before June 30 until after June 30 does not qualify because the income is deemed to have been earned when the money is received or the goods or services are provided (depending on whether you are on a cash or accruals basis of accounting).

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- Cash Basis Income - Some income is taxable on a cash receipts basis rather than on an accruals basis (e.g. rental income or interest income in certain cases). You should consider whether some income can be deferred in those instances.
- Consider delaying your invoices to customers until after July 1 – this will push the derivation of the income into the next financial year and defer the tax payable on that income. If you operate on the cash basis of accounting you simply need to delay receiving the money from your customers until after June 30.
- Lump Sum Amounts - Where a lump sum is likely to be received close to the end of a financial year, taxpayers should consider whether this amount (or part thereof) can be delayed or spread over future periods.

2. Bringing Forward Deductible Expenses or Losses

Prepayment of Expenses - In some circumstances, Small Business Entities (SBE) and individuals who derive passive type income (such as rental income and dividends) should consider pre-paying expenses prior to 30 June 2019. A tax deduction can be brought forward into this financial year for expenses like:

- Employee Superannuation Payments including the 9.5% Superannuation Guarantee Contributions for the June 2019 quarter (that have to be received by the Superannuation Fund by June 30, 2019 to claim a tax deduction).
- Superannuation for Business Owners, Directors and Associated Persons
- Wages, Bonuses, Commissions and Allowances
- Contractors
- Travel and Accommodation Expenses
- Trade Creditors
- Rent for July 2019 (and possibly extra months)
- Insurances
- Printing, Stationery and Office Supplies
- Advertising including Directory Listings
- Utility Expenses - Telephone, Electricity & Power
- Motor Vehicle Expenses - Registration and Insurance
- Accounting fees
- Subscriptions and Memberships to Professional Associations and Trade Journals

A deduction for prepaid expenses will generally be allowed where the payment is made before 30 June 2019 for services to be rendered within a 12-month period. While this strategy can be effective for businesses operating on a cash basis (not accruals basis), we never recommend you spend money on items you don't need. However, paying expenses in June that are due in July could save you some tax this financial year and provided your cash flow permits, it makes good business sense.

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Superannuation Contributions - some low or middle-income earners who make personal (after-tax) contributions to a superannuation fund may be entitled to the government co-contribution. The amount of government co-contribution will depend on your income and how much you contribute. (Refer to the Superannuation Section below for more information)

Capital Gains/Losses – the timing of the sale of assets is critical and deferring the sale until after June 30 will defer the tax exposure on the profit. Of course, if you have made other capital gains during the financial year it could be worth bringing forward the sale and crystallizing the loss, so you can offset it against the other capital gains. Note that the contract date is often the key date for when a sale has occurred for capital gains tax purposes, not the settlement date.

Accounts Payable - If you operate on an accruals basis and services have been provided to your business, ensure that you have an invoice dated June 30, 2019 or before, so you can take up the expense in you accounts for the year ended 30th June 2019.

Businesses should also consider:

- **Stock Valuation Options** - Review your Stock on Hand and Work in Progress listings before June 30 to ensure that it is valued at the lower of Cost or Net Realisable Value. Any stock that is carried at a value higher than you could realise on sale (after all costs associated with the sale) should be written down to that Net Realisable Value in your stock records.
- **Compulsory Superannuation Guarantee** – as mentioned above, if you want a tax deduction in the 2018/19 financial year, the superannuation fund must receive the funds by 30 June 2019. The Tax Office doesn't consider a contribution to be made until the amount is actually credited to a super fund's bank account so an electronic transfer to another bank account on June 30 is not necessarily considered paid. We strongly recommend you make the payment a week or so before June 30 and then follow up with the super fund to ensure the funds have been received. Don't risk the tax deductibility of what can often be a significant amount by leaving payment to the last minute.
- **Write-Off Bad Debts** – if you operate on an accruals basis of accounting (as distinct from a cash basis) you should write off bad debts from your debtors listing before June 30. A bad debt is an amount that is owed to you that you consider is uncollectable or not economically feasible to pursue collection. Unless these debts are physically recorded as a 'bad debt' in your system before 30th June 2019, a deduction will not be allowable in the current financial year.
- **Repairs and Maintenance Costs** – Where possible and cash flow allows, consider bringing these repairs forward to before June 30. If you don't understand the distinction between a repair and a capital improvement, please consult with us because some capital improvements may not be tax deductible in the current year and could be claimable over a number of years as depreciation.

- **Obsolete Plant and Equipment** should be scrapped or decommissioned prior to June 30, 2019 to enable the book value to be claimed as a tax deduction.

- **Immediate Write Off for Individual Small Business Assets**
The accelerated depreciation write-off for small businesses has been extended to 30th June 2020 and the threshold has increased to $30,000.

Businesses with a turnover of up to $10 million can claim a deduction for each asset purchased and first used or installed ready for use, up to the following thresholds:

◊ $30,000, from 7.30pm (AEDT) on 2 April 2019 until 30 June 2020
◊ $25,000, from 29 January 2019 until before 7.30pm (AEDT) on 2 April 2019
◊ $20,000, before 29 January 2019.

The instant asset write-off is now available to businesses with a turnover from $10 million to less than $50 million. These businesses can claim a deduction of up to $30,000 for the business portion of each asset (new or second hand), purchased and first used or installed ready for use from 7.30pm (AEDT) on 2 April 2019 until 30 June 2020.

On face value the instant asset write off is a very appealing tax concession, however, there are a number of conditions you need to satisfy. Firstly, the asset must be used in the business for income-producing purposes. The Tax Office have stated they will monitor usage to detect ‘rorts’ so once you lodge your tax return you might get a ‘please explain’ letter from the ATO asking for more details.

The current $30,000 threshold only applies to assets that were first acquired at or after 7:30 pm (AEST) on 2nd April 2019 and they were first used (or installed ready for use) on or before 30 June of the year you claim the deduction. The increased threshold is available to all small businesses (including those who previously opted out of the simplified depreciation rules). Depreciating assets for Primary Producers have a different set of criteria.

Here are some key points to consider:

- The asset can be new or second hand
- To be eligible, the asset must be purchased by a business turning over less than $50m (see above)
- The amount must be under $30,000 (or $20,000 depending on date of purchase) exclusive of GST (i.e. $33,000 including GST)
- If you borrow to purchase the asset, the asset is still eligible
- The asset must be installed and ready to use by the deadline (purchasing a car to be delivered in the future won’t qualify until the car is actually delivered)

- To claim the write off on a motor vehicle you will need to have a valid log book and claim only that percentage of the cost as an immediate write off
- Some taxpayers may try to reduce the cost of an asset to under $30k by using a trade-in when purchasing the asset (for example a car). However, the monetary value of the trade-in will form part of the asset cost and not reduce the cost of the asset.
- Any attempt to manipulate invoices etc. will attract the ATO's use of the anti-avoidance rules, thereby eliminating the $30,000 write off.
- If your business has a small profit or even a loss, the write off will be of little or no benefit in the current year (losses are not refundable but can be carried forward to the next year)
- Building structural improvements are not eligible for the instant write off
- Depreciating assets valued at more than $30,000 will be depreciated in one pool at a rate of 15% in the first year and 30% in future years
- If your pool balance at the end of the year is less than $30,000 before applying any other depreciation deduction, the entire pool balance can be written off
- If your business is not a 'Small Business Entity' you will need to depreciate all assets purchased over $100. Any assets purchased for $100 or less can be written off immediately

COMPANY TAX RATES FOR SMALL BUSINESSES

The company tax rate for base rate entities with less than $50 million turnover is now 27.5%. A base rate entity is a company that both:

- has an aggregated turnover less than the aggregated turnover threshold (which is $50 million for the 2018/19 income year)
- 80% or less of their assessable income is base rate entity passive income – this replaces the requirement to be carrying on a business.

CHECKLIST OF OTHER YEAR END ISSUES

In addition to the tax planning opportunities, there are a number of obligations in relation to the end of the financial year that should be considered:

If you use a Motor Vehicle in producing your income you may need to:

- Record Motor Vehicle Odometer readings at 30 June 2019
- Prepare a log book for 12 continuous weeks if your existing one is more than 5 years old. Please note, if you commence the log book prior to the 30th June 2019, the usage determined will still be appropriate for the whole of 2018/19. As such, it is not too late to start preparing one for the current financial year.

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If you have started an account-based pension:

Ensure that you have withdrawn the annual minimum required.

If you are in business or earn your income through a Company or Trust:

- **Employer Compulsory Superannuation Obligations** - The deadline for employers to pay Superannuation Guarantee Contributions for the 2018/19 financial year is the 28 July 2019. However, if you want to claim a tax deduction in the 2018/19 financial year the super fund (or Small Business Superannuation Clearing House) must receive the contributions by 30 June 2019. You should therefore avoid making contributions at the last minute because processing delays could deny you a tax deduction in this financial year.

- **For Private Company - Div 7A Loans** - Business owners who have borrowed funds from their company in prior years must ensure that the appropriate principal and interest loan repayments are made by 30 June 2019. Current year loans must be either paid back in full or have a loan agreement entered into before the due date of lodgement of the company return. Failure to comply risks having it counted as an unfranked dividend in the individual's tax return.
- Preparation of **Stock Count Working Papers** at June 30.
- Preparation and reconciliation of **Employee PAYG Payment Summaries** (formerly known as Group Certificates).
- **Trustee Resolutions** - ensure that the Trustee Resolutions are prepared and signed before June 30, 2019 for all Discretionary ("Family") Trusts.

From 1 July 2019:

The Compulsory Super Guarantee Contribution rate stays at 9.50% for the 2019/2020 financial year. The maximum super contribution base used to determine the maximum limit on any individual employee's earnings base for each quarter of 2019/20 is $55,270 per quarter. You do not have to provide the minimum support for the part of earnings above this limit.

Single Touch Payroll (STP) reporting is mandatory for all employers (refer to our website for more information).

SUPERANNUATION & TAX PLANNING

CONCESSIONAL CONTRIBUTION CAP OF $25,000 FOR EVERYONE

The tax-deductible superannuation contribution limit or cap is $25,000 for all individuals regardless of their age. From 1 July 2018, members can make 'carry-forward' concessional super contributions if they have a total superannuation balance of less than $500,000. Members can access their unused concessional contributions caps on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire. The first year in which you can access unused concessional contributions is the 2019/20 financial year.

The advantage of making the maximum tax-deductible superannuation contribution before June 30, 2019 is that superannuation contributions are taxed at between 15% and 30%, compared to personal tax rates of between 32.5% and 45% (plus 2% Medicare levy) for an individual taxpayer earning over $37,000.

Typically, self-employed individuals and those who earn their income primarily from passive sources like investments make their super contributions close to the end of the financial year to claim a tax deduction. However, individuals who are employees may also use this strategy and those who might want to take advantage of this opportunity would typically include individuals:

- who work for an employer that doesn't permit salary sacrifice,
- who work for an employer that does enable salary sacrifice (but it's disadvantageous due to a reduction in entitlements), and
- who are salary sacrificing but want to make a top-up contribution to utilise their full concessional contributions cap.

ADDITIONAL TAX ON SUPER CONTRIBUTIONS BY HIGH INCOME EARNERS

The income threshold at which the additional 15% (Division 293) tax is payable on superannuation contributions is $250,000 per annum effective 1 July 2017. Where you are required to pay this additional tax, making super contributions within the cap is still a tax effective strategy. With super contributions taxed at a maximum of 30% and investment earnings in super taxed at a maximum of 15%, both these tax rates are more favourable when compared to the highest marginal tax rate of 45% (plus 2% Medicare Levy) for individuals.

GOVERNMENT CO-CONTRIBUTION TO YOUR SUPERANNUATION

The Government co-contribution is designed to boost the superannuation savings of low and middle-income earners who earn at least 10% of their income from employment or running a business. If your income is within the thresholds listed in the table below and make a 'non-concessional contribution' to your superannuation, you may be eligible for a Government co-contribution of up to $500.

In 2018/19, the maximum co-contribution is available if you contribute $1,000 and earn $37,697 or less. A lower amount may be received if you contribute less than $1,000 and/or earn between $37,697 and $52,697.

See Table below:-

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Tax Year	Maximum Entitlement	Low Income Threshold	High Income Threshold
2019/20	$500	$38,564	$53,564
2018/19	$500	$37,697	$52,697
2017/18	$500	$36,813	$51,813

The matching rate is 50% of your contribution and additional eligibility requirements were added from 1 July 2017 which include:

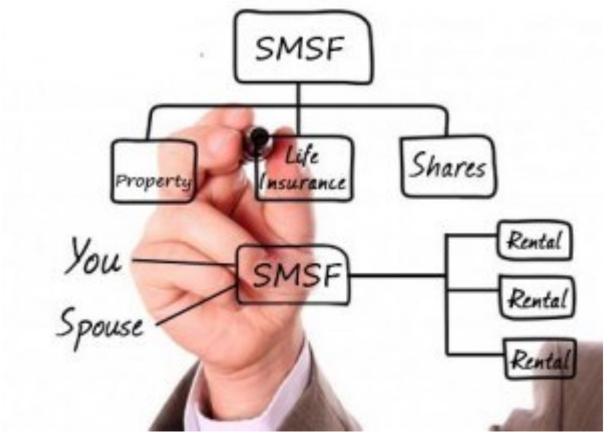
- having a total superannuation balance of less than $1.6 million on 30 June of the year before the year the contributions are being made
- having not exceeded your non-concessional contributions cap in the relevant financial year.

SALARY SACRIFICE TO SUPERANNUATION

If your marginal tax rate is 19% or more, salary sacrificing can be an effective way to boost your superannuation and also reduce your tax.

By putting pre-tax salary into superannuation instead of having it taxed at your marginal tax rate you may save tax. This can be particularly beneficial for employees approaching retirement age.

SELF-MANAGED SUPERANNUATION



A Self-Managed Superannuation Fund (SMSF) can provide significant tax savings but they are not for everyone. There are significant regulations surrounding the management and administration of SMSF's. With the end of the financial year approaching, now is a good time to discuss the pros and cons of establishing your own SMSF. It might be appropriate to establish a SMSF in conjunction with other tax planning opportunities and we urge you to consult with us today.

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