YEAR END STRATEGIES

The 2011/2012 Tax Guide for You and Your Business

Taking time to prepare for the year ahead

As global economy uncertainty continues it is crucial that businesses and individuals are prepared for more potentially financially testing times in the year ahead.

Now is the time to act and focus on your tax and financial planning in order to minimise tax, reduce risk, and be prepared financially for the year ahead. Effective tax planning is something that should be considered year round and by making it a priority could result in you paying less tax liability. By preparing and updating a forecast of income and outgoings, businesses can identify times when money may be short and plan according.

With the end of tax year nearing, it is crucial to complete any last minute tax planning sooner rather than later.

The current tax year ends on June 30 so it is a good idea to get in touch with your financial adviser, tax agent and business partners to ensure that you have everything in order.

Following some fundamental guidelines will help ensure that your business is prepared for the financial year ahead. Please feel free to contact us in relation to any points in this newsletter.

Managing CGT liability

Tax payers can reduce their tax liability this end of financial year by deferring the realisation of a capital gain until after June 30.

If you are thinking about selling an asset this year for a profit, you may want to consider deferring until the 2012-2013 financial year. This could reduce the amount of Capital Gains Tax (CGT) you are liable for and in turn reduce the tax you have to pay.

Deferring the sale of an asset can delay your CGT liability for up to a year, and in some cases longer. If you expect to earn a lower taxable income in the following tax year, the tax you have to pay on the realised capital gains in that year may decrease significantly. For example, by deferring the sale of an asset until the following year when you expect to earn less income, your tax rate will change to a lower bracket, meaning you save considerably on tax. Some other strategies to minimise CGT include:

- Utilise the CGT small business and retirement concessions
- Match gains and losses where possible to avoid carrying forward a capital loss
- Defer a disposal to a subsequent income year
- Defer a disposal to ensure the asset has been held for at least 12 months to potentially benefit from the 50 per cent discount

If you feel that CGT may affect you this year, please contact our office.

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Year end superannuation strategies

Superannuation issues are some of the most important considerations to keep in mind as the end of financial year approaches.

The following strategies will help ensure that your fund continues to receive gains even in the face of poor investment returns.

Salary sacrificing

Salary sacrificing can significantly enhance your superannuation savings for retirement. By creating an agreement between you and your employer, you can “sacrifice” a part of your salary directly into your super account. Because your contributions are deducted from your before tax salary, your taxable income is reduced while your retirement savings receive a boost. In some individual situations this may mean you will be taxed at a reduced marginal rate due to the decrease in taxable income.

Government co-contribution

The government will make a co-contribution of up to $1000 to superannuation funds for each personal after-tax contribution made by a tax payer. However, to receive government co-contributions the individual must be under 71 years-old, earn an annual income of less than $61,920 and receive at least 10 per cent of income from employment – either self employed or as an employee.

Super contributions and the self-employed

You may be eligible to claim a full tax deduction on your superannuation contributions if you are self-employed, substantially self-employed, or an unsupported person. However, they will be regarded as non-concessional contributions if you do not claim your super contributions as a tax deduction. To qualify as a ‘substantially’ self-employed person, income from an employer who is required to make superannuation contributions must not exceed 10 percent of total earnings. To be considered an unsupported person, you must not receive any super contributions from assessable income in that income year.

Spouse contributions

Generally a tax deduction for super relates to the person making the contributions on their own behalf. There is an exception when it comes to spouses. An individual can make a concessional contribution to a super fund and split those contributions with a spouse. If you make contributions for your spouse, you may also be eligible to claim a tax offset, depending on your spouse’s income. Although once your spouse turns 70, you can no longer make contributions on their behalf.

Spouse contributions can be made on behalf of your spouse if they are aged 65 years or younger, or if they are between 65-70 years and have worked at least 40 hours over 30 consecutive days in the financial year in which the contribution is made.

The importance of estate planning

Estate planning is more than just having a will. It is about ensuring that a person’s estate is passed on to their beneficiaries in the most tax-effective and financially efficient way possible when they are gone.

Getting early advice on setting up an estate plan can help you to achieve peace of mind in knowing that your wealth will be passed in the most tax-effective way and ensure it is done according to your wishes, often a problem with a simple will.

An estate plan maximises your assets and takes into account other non-financial matters such as the care of dependent children, medical treatment and accommodation if you are incapacitated. It also considers your charitable, community and cultural requirements.

If you die without a will, your assets are distributed by following a standard statutory formula and it is likely that distribution will not play out the way you would have liked.

For those who do have a will, it may only cover what to do with your personally owned assets and other considerations like superannuation, trusts and business assets may have been left out.

In developing an effective action plan for dealing with your estate, the following considerations should be made:

- How will your business wealth be dealt with?
- How should your superannuation be dealt with after your death?
- Who is to receive your gifts and legacies and when should they be given?
- Who will be appointed executors of your will?
- Who will control your non-estate wealth holding entities including family trusts?

An estate plan should balance life-time enjoyment of your assets with preservation of those assets for your family after your passing. It should be cost effective, simple to understand and operate and be revised regularly.

An estate plan is something that should be considered, no matter how young or old you are.

Maximising super for over 50's

From July 1, the level of tax concessional super contributions that you can make will be significantly reduced, so it is a good idea to maximise contributions while you can.

For those with more than $500,000 in superannuation savings, and aged 50 years and over, the tax-concessional limit will be halved to $25,000. Now is the time to start planning how you can maximise your tax-concessional contributions through different strategies if you haven't already done so.

Contribution splitting

Using a contribution-splitting strategy enables one spouse to share a portion of their super contributions with their partner. Putting investments and interest-accruing accounts in your lower-earning spouses name will see less tax paid. If the money is being rolled into another fund the split can be made in the current tax year, however in most cases the split takes place in the year after the contribution was made. While contribution-splitting is an effective strategy for those who are looking to maximise their funds as much as possible, it is important to consult your tax professional.

Start a transition to retirement pension

From the age of 55 you can start a transition to retirement pension from your superannuation fund. Delaying this transition could mean that you miss out on benefiting from any franking credits refunds and the opportunity to convert taxable investment income in your fund into tax-free earnings. If you are still working, the pension you initiate can be a restricted transition to a retirement pension, or unrestricted if you have no plans to work again.

Withdrawal and re-contribution

If you have already started a pension it may be worthwhile to consider a withdrawal and re-contribution strategy to enhance the tax-free component of you super. This option provides advantages where you anticipate beneficiaries inheriting a portion of your super.

Excess contributions

Contributions are divided into two types:

- Concessional - essentially employer contributions and deductible member contributions; and
- Non-concessional - essentially non-deductible member contributions.

Each type of contribution has a dollar cap that applies in each tax year. If these caps are exceeded, then additional tax is payable by the member. This excess contribution is taxed at 46.5 per cent.

A superannuation fund may not accept non-concessional contributions that are in excess of the contribution caps as this could raise compliance issues for the fund.

End of Year Tax Tips for Businesses & Individuals

✓ Obsolete stock
All stock should be reviewed during the end of year stock-take and choices made in relation to its value as a tax and commercial asset. Consider the age of the items, likelihood of future sales and their scrap value. Remember to keep and file all relevant documents.

✓ Be prepared to substantiate your claim
Make sure you keep receipts to prove your deduction and show why the expense was incurred to derive assessable income.

✓ Pre-pay interest
If allowed by your lender, this is a strategy to defer the payment of tax. Factors such as anticipated future income, interest rates and cash flow impact should be considered fully beforehand.

✓ Fixed assets
Review fixed assets useful life and determine if there are any benefits in scrapping or trading in assets in light of the temporary investment allowance.

✓ Small business CGT concessions
Individuals operating a small business may be eligible for CGT concessions on the sale of business assets. Review your potential concessions this financial year.

✓ Work from home
Taxpayers that work from home may be able to claim a percentage of home related expenses. These expenses must be directly related to the earning of taxable income.

✓ Renovations by previous owner
You may be eligible for a deduction for depreciation on the cost of improvement by a previous owner, provided items are identifiable and itemised in a depreciation schedule.

✓ Review Division 7A private loans
A private loan older than 6 years faces a risk of becoming statute barred (unenforceable). This means the ATO may use a discretion and treat it as a unfranked dividend unless remedial action is taken.

Maximising your property claim

Property investors could guarantee more cash in their pockets this end of financial year by maximising property depreciation deductions.

A qualified quantity surveyor inspects a property and prepares a depreciation report which can then be used as a tax return. The property investor can claim the depreciation of the investment property against taxable income and in turn result in the property investor paying less.

There are two main elements to claiming a rental investment property deduction:

Plant and equipment (Division 40)

Division 40 is that part of the legislation that covers the depreciation of "plant and equipment". That is, the removable fixtures and fittings within an investment property. Each plant and equipment item has an effective life set by the Australian Taxation Office (ATO) and the depreciation deduction available on that item is calculated using this effective life.

Some of the Division 40 items commonly found within a property include hot water service, ovens, ceiling fans, dishwashers, rangehoods and air conditioners.

Capital works deduction (Division 43)

Also referred to as 'Capital Works Allowance' or 'Building Write-Off', Division 43 covers the deductions available to owners for the structural elements of a building and the items within the property that are deemed irremovable. These items include the foundations, walls, ceiling, and roof. Other fixed assets like tiles, toilets, built-in cupboards, windows and doors also fall under

Division 43. Properties qualify for this allowance depending on their age and type; either 2.5% or 4% of a property's historical construction cost or estimated cost can be claimed by a professional such as a quantity surveyor.

Some items can be easily incorrectly classified when categorising them into a Division 40 or Division 43 deduction. For instance, a swimming pool falls under the Division 43 allowance, but the pumps for the pool qualify for Division 40.

When these assets are not classified properly, money is lost in the early financial years following the purchase. Often the obvious assets are classified as Division 40 and the more inconspicuous items are sometimes overlooked. This often results in them being combined with Division 43 and claimed at 2.5% instead of the much higher rate based upon their effective life. That may mean a significant difference in the deduction for the property investor.

Get a head start for the next financial year

Preparation is the key to efficient and effective financial planning for the 2012-2013 year ahead.

Now is the perfect opportunity to implement effective strategies to ensure you start the tax year off on the right foot. Reassessing your financial goals and record keeping systems is important to consider when preparing for the approaching financial year.

Set effective goals

The beginning of the new financial year is the ideal time to establish your goals and put in place an action plan to achieve them. Considering your objectives for the coming year early on will ensure that you have plenty of time to implement a course of action to help you achieve your goals.

Important things to consider include your retirement planning, present and future investments, maximising your superannuation scheme, and reviewing of assets.

Track your progress

Whether it be that the accounting system your business uses is outdated, not working properly, or simply does not suit your needs any longer, it is a good idea to consider upgrading.

By running your business on an ineffective system, you run the risk of capturing and recording GST information incorrectly resulting in errors on your BAS returns. This can prove to be a costly error for your company, and could have been avoided by investing in an effective system. Systems fail for a number of reasons, including incorrect set-up, not being regularly checked/updated, and incorrectly classifying GST on transactions.

Save some money

Employers are not allowed to reduce the rate of tax on your pay without permission from the ATO. If you have an investment property you can reduce your withholding tax by completing a PAYG Withholding Variation. This needs to be completed each financial year.

Having the immediate additional cash flow can lessen the burden of your rental expenses such as loan repayments.

Consult the experts

Managing your financial affairs and preparing for the tax year ahead can be a complex and overwhelming task. If you are unsure or not confident about taking care of it yourself, then it is a good idea to contact your tax professional. Tax agents, advisers, and accountants can tailor a structured plan to your individual circumstances that will ensure you are prepared for the coming tax-year.

We are here to help

Make good use of us! This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us for help in taking advantage of tax-saving opportunities and tax efficient investments.