2017 END OF FINANCIAL YEAR

Tax planning items to consider before 30 June 2017

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BUSINESS CONSIDERATIONS

1. Is your business a "Small Business Entity"?

From 1 July 2016 the Small Business Entity turnover threshold increased from $2 million to $10 million. This means that if you carried on a business during the year and the business has an aggregated turnover (your annual turnover plus the annual turnover of any connected/affiliated businesses) less than $10 million you will be eligible for a range of tax concessions from the ATO.

Note that from 1 July 2017 the turnover threshold is set to increase again to $25 million.

2. Reduction in company tax rates and maximum franking credits for small business

For the year ended 30 June 2017 the company tax rate for small businesses has decreased from 28.5% to 27.5%. Companies with an aggregated turnover of less than $10 million are eligible for this rate.

This reduced tax rate also limits the maximum franking credits that can be allocated to a franked dividend to 27.5% from 1 July 2016. If your small business has already issued dividends based on the 30% company tax rate you will need to notify members of the correct franking credit amounts.

3. Instant asset write-off for assets costing less than $20,000

Small businesses can immediately deduct the business portion of assets costing less than $20,000 that were purchased during the 2017 financial year. Also available is an immediate deduction for the balance of the small business pool if it is less than $20,000 at 30 June 2017.

In the recent 2017-18 budget the Government announced an extension of the $20,000 instant asset write-off threshold to 30 June 2018.

4. Small business concession for prepaid expenses

Businesses with a turnover less than $10 million can make prepayments, up to 12 months, on expenses (e.g. interest, rent, subscriptions, etc.) before 30 June 2017 and obtain a full tax deduction in the 2017 year.

5. Review of depreciable assets

All businesses should undertake a review of their depreciable assets to ensure that a deduction is claimed for any items lost, stolen, destroyed or scrapped during the year.

6. Ensure your employer superannuation contributions have been paid

The superannuation guarantee requires employers to contribute a minimum of 9.5% of their employee's earnings to a complying superannuation fund at least every quarter. At the latest, the June quarter contributions need to be paid **by the 28 July 2017** in order for them to be tax deductible and to avoid the superannuation guarantee charge.

To claim a tax deduction in the 2017 financial year employer superannuation contributions need to be received by the superannuation fund **before 30 June 2017**.

7. Maximise your employer superannuation contributions

For the 2017 financial year the maximum employer or 'concessional' contributions that can be made are limited to $30,000 or $35,000 for those over the age of 49 at 30 June 2017.

Individuals wishing to 'top-up' their superannuation should consider approaching their employer about **salary sacrificing.** If the contributions exceed the above limits the excess amount will be included in the individual's assessable income and taxed at their marginal tax rate.

Note that from 1 July 2017 the contribution cap will reduce to $25,000 for all individuals.

8. Ensure bonuses paid are tax deductible

To ensure that bonuses incurred before the year end are tax deductible employers should:

- Evidence the bonus in writing prior to 30 June 2017
- Determine the amount before the year end
- Ensure that the payment is not subject to discretion, review or confirmation at a later date
- Ensure that employees are told the amount prior to the year end

9. Is a motor vehicle being used for business purposes?

If the business use proportion of your motor vehicle is substantial ensure that you keep an accurate and complete logbook over a 12-week period. The start date of the logbook must be prior to 30 June 2017 to be applicable for the 2017 financial year. You should ensure to record the odometer readings at 30 June 2017 and keep a record of all motor vehicle expenses incurred.

Alternatively there is the option to claim up to a maximum of 5,000 business kilometres (based on a reasonable estimate) using the cents per kilometre method.

10. Review of Work in Progress

Businesses are not required to pay tax on their Work In Progress at 30 June 2017 if in a profession where the services cannot be billed to the client until complete. If this is the case the business should carefully consider their Work in Progress before processing billings for 30 June 2017.

Note that businesses in the construction industry are not considered to be in this category.

11. Write off bad debts

Ensure to review your Trade Debtors and write off all bad debts **before 30 June 2017**. To qualify for a deduction the book entries need to be processed before 30 June rather than at a later time (e.g. when the accounts are being finalised).

If on the accruals method for GST you can also claim back any GST that was remitted on the original invoice on your next BAS.

12. Year-end stocktake

A physical stocktake must be conducted at the close of business on 30 June 2017. Review your listing and write-off any obsolete or worthless stock items. Trading stock can be valued using either cost price, market selling value or replacement price.

Note that small businesses **do not** need to conduct a stocktake if the value of stock on hand does not fluctuate more than $5,000 from year to year.

13. Defer income and bring forward expenses

Businesses that assess income on a 'cash' basis, where possible, may wish to delay the receipt of income until after 1 July 2017. This has the benefit of reducing taxable income. For example, interest income on term deposits can generally be deferred if the maturity date is after 1 July 2017.

It is important to note that when the ATO audits a 'cash' basis business they will look closely at banking in June/July to ensure there has been no artificial reduction at year end.

Similarly you may wish to ensure purchases are made before 30 June 2017 keeping in mind that assets purchased before 30 June 2017 and costing less than $20,000 will be immediately deductible for small businesses.

14. Loans to shareholders/beneficiaries

If money has been withdrawn from a company or trust during the year it is possible that this could become a deemed dividend/distribution in the hands of the shareholder/beneficiary if "Division 7A" interest and minimum repayment requirements are not satisfied. This is a complex area and advice should be sought if this is the case.

15. Defer Capital Gains Tax (CGT)

If assets are likely to return a profit on sale, CGT can be deferred by ensuring the sale contract is dated after 30 June 2017. In addition the effective rate of tax payable on the gain can be reduced to 15% by salary sacrificing the taxable portion of the gain into your superannuation fund. Where the gain is realised after 30 June 2017 a salary sacrifice arrangement can be put in place where the amount is sacrificed over the entirety of next financial year.

It is important to note that the capital gains tax discount, available to individuals, trusts and superannuation funds, will only be available where the asset is held for longer than 12 months.

We encourage you to contact us should you be considering a significant purchase or sale to ensure the most tax advantageous position is achieved.

16. Wages to children

Salary and wages earned by individuals under the age of 18 are taxed at normal adult taxpayer rates, rather than at the higher rates that apply to "unearned income" of minors (i.e. family trust distributions). You should therefore consider paying wages to children who have worked in the business. For the 2017 year they can earn up to $20,542 tax-free in the minor's hands whilst being a tax deduction for the business.

If wages are paid they need to be paid at arms-length rates with periods worked documented and a PAYG Payment Summary will need to be prepared.

17. Defer termination payments

If an individual is nearing age 55 it is recommended that termination payments be deferred until they reach 55. This gives the individual substantial savings on tax rates and tax-free amounts of the payment.

18. Deduction for interest expenses

Interest is deductible to the extent it is incurred in gaining or producing assessable income or in carrying on a business for that purpose and is not of a capital, private or domestic nature. Where a loan is taken out for two purposes, one business and one non-business, only a proportion of the interest will be deductible.

Some of the situations in which interest may be deductible include:

- Where the money is borrowed by a partnership to repay money advanced by a partner for working capital. This rule does not extend to co-owners of income-producing assets such as rental properties.
- Where the money is borrowed to acquire shares, if it is reasonably expected that dividends will be derived from the investment. Interest will not be deductible where the shares are acquired solely for the purpose of making a capital profit on their resale.
- Where the money is borrowed by persons in business for the purpose of paying income tax, in certain circumstances.
- Where the money is borrowed to acquire units in a split property unit trust

INDIVIDUAL CONSIDERATIONS

1. Expiry of the 2% temporary budget repair levy

The 2% levy for individuals earning more than $180,000 will be removed from 1 July 2017. You may therefore wish to defer income where possible until after 30 June 2017.

2. Is a motor vehicle being used for work-related purposes?

If the business use proportion of your motor vehicle is substantial ensure that you keep an accurate and complete logbook over a 12-week period. The start date of the logbook must be prior to 30 June 2017 to be applicable for the 2017 financial year. You should ensure to record the odometer readings at 30 June 2017 and keep a record of all motor vehicle expenses incurred.

Alternatively there is the option to claim up to a maximum of 5,000 business kilometres (based on a reasonable estimate) using the cents per kilometre method

3. Defer Capital Gains Tax (CGT) and realise losses

If assets are likely to return a profit on sale, CGT can be deferred by ensuring the sale contract is dated after 30 June 2017. It is important to note that the capital gains tax discount will only be available where the asset is held for longer than 12 months.

If a capital gain has been realised in the 2017 financial year you may wish to consider selling any non-performing assets or investments before 30 June 2017. The capital loss can be utilised to offset any capital gains and can be carried forward to offset future capital gains.

We encourage you to contact us should you be considering a significant purchase or sale to ensure the most tax advantageous position is achieved.

4. Do you have income protection insurance?

Income protection insurance generally replaces up to 75% of your salary if you are unable to work due to sickness or an accident. The premium is generally tax deductible if bought as a stand alone policy (i.e. not through your superannuation fund).

5. Maximise your work-related deductions

Ensure to keep receipts and records of any work-related expenses incurred such as uniforms, training courses, learning materials and travel, as these may be tax-deductible

6. Maximise your donations

Any tax-deductible donations should be made before 30 June 2017. Note that the deduction must be claimed in the return of the individual whose name is on the receipt.

7. Consideration for rental property owners

Rental properties are high on the ATO's radar, particularly with landlords looking to increase deductions before the end of the year. The following should be taken into consideration when reporting your rental income for the 2017 financial year:

- **Repair vs. capital improvements** – Genuine repairs that relate directly to wear and tear as a result of renting the property will generally be tax deductible in the year they are incurred. This generally relates to replacing or renewing a worn out or damaged item. Alternatively, new or improved items are likely to be capital in nature and can be written off over a number of years. For example, replacing an entire fence is likely to be capital as opposed to repairing a few broken palings.
- **Depreciation report** – A Quantity Surveyor report will allow you to claim depreciation and capital works deductions on capital items within the property and on the property itself. See item below regarding proposed budget changes affecting the 2017-18 financial year.
- **Renting to family members** – If you or family members have used the rental property throughout the year all expenditure will need to be apportioned between private and investment. To be considered non-private use, rent needs to be charged to the family member on arms-length terms, ie generally at market value.
- **Proposed budget changes**
  - *Deduction for travel expenses disallowed* **–** From 1 July 2017, investment property owners can no longer claim deductions for travel expenses in relation to inspecting the property, etc.
  - *Limitations to depreciation deductions* – From 1 July 2017, deductions for depreciation will be limited to plant and equipment actually purchased by the investor. Note that existing investment properties can continue to claim deductions for plant and equipment forming part of the property as at 9 May 2017.

8. Deduction for interest expenses

Interest is deductible to the extent it is incurred in gaining or producing assessable income or in carrying on a business for that purpose and is not of a capital, private or domestic nature. Where a loan is taken out for two purposes, one business and one non-business, only a proportion of the interest will be deductible.

Some of the situations in which interest may be deductible include:

- Where the money is borrowed to acquire shares, if it is reasonably expected that dividends will be derived from the investment. Interest will not be deductible where the shares are acquired solely for the purpose of making a capital profit on their resale.
- Where the money is borrowed to acquire units in a split property unit trust
- Where the money is used to purchase a rental property

9. Net medical expenses tax offset phase out

For the 2017 financial year the offset can only be claimed for expenses relating to disability aids, attendant care or aged care. The offset will be abolished completely from 1 July 2019.

SUPERANNUATION CONSIDERATIONS

1. Maximise your concessional contributions

For the 2017 financial year the maximum employer or personal tax-deductible contributions that can be made are limited to $30,000 or $35,000 for those over the age of 49 at 30 June 2017.

If you are wishing to 'top-up' your superannuation you should consider approaching your employer about **salary sacrificing.**

You may also be able to make **tax-deductible personal contributions** to superannuation to reduce your taxable income. To be eligible for this deduction in the 2017 financial year less than 10% of your income (assessable income + reportable fringe benefits + reportable employer super contributions) can come from salary and wages, and a 'notice of intention to claim a deduction' must be lodged with your superannuation fund.

If the contributions exceed the above limits the excess amount will be included in your individual assessable income and taxed at your marginal tax rate.

Note that from 1 July 2017 the '10% rule' is being removed meaning that all individuals under the age of 75 will be eligible to claim tax deductions for personal superannuation contributions subject to the concessional cap. The concessional cap will reduce to $25,000 for all individuals from 1 July 2017.

2. Maximise your non-concessional contributions

From 1 July 2017 the cap for non-concessional contributions decreases from $180,000 to $100,000 per year. This cap will be reduced further to nil if your total superannuation balance is above $1.6million.

You may therefore wish to consider maximising your non-concessional contributions before 30 June 2017, particularly if you are nearing the age of 65. Under the 3-year bring forward rule a total of $540,000 can be contributed if no non-concessional contributions were made in the 2015 or 2016 financial year.

Any contributions above the non-concessional cap will be taxed at the top marginal tax rate in the hands of the individual.

3. Ensure your superannuation balances are below $1.6 million

From 1 July 2017 there is a limit on how much superannuation you can transfer from your accumulation accounts to your tax-free 'retirement phase' accounts to receive pension income. The cap will start at $1.6 million and includes the combined balance of accounts from ALL of your superannuation funds.

If at 30 June 2017 the total value of your retirement phase accounts exceeds $1.6 million you will need to transfer the excess back into accumulation mode or withdraw the excess amount from your superannuation fund.

4. Transition to retirement pensions no longer tax exempt

Earnings inside a transition to retirement pension will no longer be tax exempt from 1 July 2017. All pensions of this type should therefore be reviewed before 30 June 2017 to assess whether it is still beneficial.

5. Division 293 tax for high-income earners

Individuals earning over $300,000 adjusted taxable income are subject to an additional 15% tax on concessional contributions. From 1 July 2017, the income threshold for the additional tax will reduce to $250,000. High income earners may therefore wish to maximise their concessional contributions before 30 June 2017.

The information in this newsletter is general in nature. It does not take into consideration all your personal financial information, goals or objectives and is designed to bring your attention to the various options that may impact you. Please ensure that you seek the appropriate financial and taxation advice.

Please contact us before 30 June 2017 to discuss your tax planning opportunities in more detail.

For more information regarding the proposed changes handed down in the recent 2017-18 budget see our 2017 budget newsletter available on our website.