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Tax Planning Newsletter

The end of financial year is fast approaching once again. But here at Mark Trovato Chartered Accountants, we are happily celebrating our 1st year anniversary. We would like to say a big thank you to all our clients, old and new, for your valued and continued business.

We have two new additions to the Mark Trovato Chartered Accountants family. On the 22nd April we welcomed Pia Fucile as a Junior Administration Assistant. And our newest, youngest and definitely the cutest ever addition is little Nicole Black who was born on the 15th May 2014. She is the first daughter of Anita Black, our bookkeeper.

DOUBLE CONCESSIONAL SUPER

CONTRIBUTIONS

Double concession contributions can be made for the financial year ending 30 June 2014.

Instead of \$25,000 or \$35,000 (if you are age 59 or more on 30 June 2013) it is possible to make \$50,000 or \$70,000 in concessional contributions. To do this requires the use of an unallocated contribution account and there must be paper work supporting the strategy – as the ATO will be checking. If you have used this technique in respect of the 2013 financial year – you will most likely have already exhausted your concessional caps for the 2014 financial year and so will not be able to do it again until the new financial year.

[Click here to read on](#)

End of Year Tax Planning Checklist 2014

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For any other enquiries, please find our contact details below.

Contact Us....

Kind Regards

The Team
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Small Business Entity Rules

- Small Business Entities - the small business entity rules apply to a sole trader, partnership, company or trust which has a group turnover of less than \$2M in the previous year, or likely to be less than \$2M in the current year.
- Depreciation Rules - if the asset costs less than \$6,500 it may be written off in full in the year in which it was acquired, however the current government is attempting to pass legislation to reduce this amount to \$1,000 from 1st January 2014 as part of the repeal of the Mineral Resources Rent Tax (MRRT). The long life small business depreciation asset pool and the general small business pool have been consolidated into a single pool to be written off at 30% (for any new assets acquired 15% in the first year).
- Depreciation – Motor Vehicle – you can choose to use the capital allowance provision to calculate the deduction for a motor vehicle costing \$6,500 or more if you have started to use or installed ready for use for business purposes.
The deduction in the first year is \$5,000 + 15% of the residual (cost price less \$5,000) however, the current government is attempting to pass legislation to remove the special depreciation rules for motor vehicles from 1st January 2014 as part of the repeal of the Mineral Resources Rent Tax (MRRT).
- Trading Stock Rules For Small Business Entities - small business entities do not have to account for changes in trading stock or prepare a stocktake for tax purposes where the difference between the value of the opening stock and a reasonable estimate of the closing stock is \$5,000 or less.
- Prepaid Expenses - a small business entity taxpayer can claim an immediate deduction for certain prepaid business expenses that satisfy the 12-month rule. , the discount applicable to the period up to 30th June 2014 can be claimed as a tax deduction.
- Rent (Accruals Basis) - if rent is in arrears, the part that is owed up to 30th June 2014 can be claimed as a tax deduction.
Australian Taxation Office.
- Payroll Tax (if you are liable) - you have to prepare a reconciliation of total payroll for the year showing the total amount of payroll tax payable and then reconcile this with the remittances that you have forwarded on a monthly basis.
- Work Cover - a Work Cover Declaration is due by 31st August certifying wages paid for year ending 30th June 2014.

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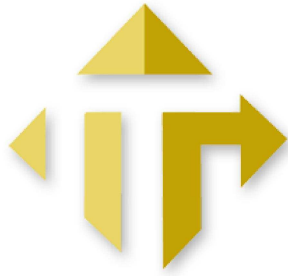
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Deductions

- Prepayments – Small Business Entity - small business entity taxpayers are entitled to a deduction where the relevant services will be wholly provided within 12 months of the date of expenditure, such as office supplies, stationery, rent, advertising etc.
- Prepayments - Not Defined As Small Business - the prepayment rule for other small businesses applies to business taxpayers with a group turnover of \$2M or more.
- Prepayments "Excluded Expenditure" - there is an exemption for payments of "excluded expenditure". (Please contact us for further details.)
- Interest On Investment Loans - taxpayers who have borrowed money for a non-business investment (e.g. rental property) can check with their lenders to see if they can prepay interest prior to 30th June 2014.
- Staff Bonuses - ensure a cheque has been written prior to 30th June 2014 and PAYG withholding tax deducted.
- Staff Holidays - where practical, encourage staff to take holidays prior to 30th June 2014.
- Superannuation – for the year ending 30th June 2014, superannuation contributions can be paid for any person up to \$25,000, or \$35,000 if 59 years or over on 30 June 2013.
- Self-Employed Persons - self-employed persons can obtain a superannuation deduction on the same basis as that adopted for employees.
- Salary Sacrifice Arrangements - salary sacrifice arrangements can be utilised to maximise superannuation contributions subject to the overall deduction limits.
- Non-Concessional Contributions - non-concessional contributions can be made up to \$150,000 per annum or a total of \$450,000 over a 3-year period. This will increase to \$180,000 in 2015.
- Superannuation Minimum Contributions - superannuation contributions have to be paid to all eligible employees who are paid, at least, \$450 gross per month.
- Superannuation Co-contribution - the government will give lower income earners \$0.50 for each \$1 they contribute to superannuation from their after-tax salary up to a maximum of \$1,000.
- Interest On Loan Funds - interest can be claimed on loans taken out for business purposes or to buy income producing properties and/or shares.
- Repairs & Maintenance - ensure that the work has been completed prior to 30th June 2014.
- Directors' Fees - ensure cheques are drawn prior to 30th June 2014 and that PAYG Withholding Tax is deducted.
- Travel Deductions:
 - Overseas – prepare a full itinerary & diary.
 - Local – more than 6 nights you are required to maintain a diary.
- Taxation Advice - fees payable to an accountant or registered tax agent for taxation advice can be claimed.
- Motor Vehicle Expenses - there are 4 methods available to calculate tax deductions for work-related motor vehicle expenses:
 - cents per kilometre method;
 - small car – 65 cents per kilometre
 - medium car – 76 cents per kilometre
 - large car – 77 cents per kilometre
 - logbook method;
 - 12% of the original value method; or
 - 1/3 of actual expense method.
- Expense Substantiation - ensure that you can justify all employment-related expense amounts incurred.
- Depreciation - review capital expenditure and ensure you claim depreciation at the highest legally allowable amount.
- Donations - any promised tax deductible donations should be made prior to 30th June 2014.
- Building Allowance - the construction costs of income producing buildings may be written off at 2½% or 4%, depending on date of construction.
- Borrowing Costs - borrowing costs can be claimed over the shorter of five years or the term of the loan.
- Entertainment - entertainment is not deductible unless it is provided as a fringe benefit and Fringe Benefits Tax has been paid.
- Research & Development - companies that incur research and development can claim additional taxation benefits. There are two components:
 - companies with turnovers under \$20M; and
 - companies with turnovers over \$20M.

Companies must register their research and development projects with AusIndustry by 30th April 2015 or the date of lodgement of the company's income tax return, whichever is the earlier.

Companies with turnovers under \$20M - the company will receive the benefit of a research and development 45% refundable tax offset, calculated at 45% of the eligible research and development expenditure. The rebate can be paid to the company by the Australian Taxation Office within 30 days of the company lodging its income tax return.

Companies with Turnovers over \$20M - the company will receive a 40% non-refundable tax offset. If you require further information on the treatment of

research and development expenditure, please contact us.

- Gifts - ensure that the payment is made to a tax-deductible charity on or before 30th June 2014.
- Property Owners' Deductions - property owners can claim a number of expenses against rental income, including, but not limited to, agents' fees, repairs & maintenance, travel & accommodation for inspection of the investment property, interest on loans borrowed for the property acquisition, etc.
- Negative Gearing - the net loss, which may include interest, borrowing costs etc., may be deductible.
- Audit Fees - deductible if there is a contract that creates a presently existing liability before the 30th June 2014.
- Salary Packages - ensure that salary packages for 2014/15 are negotiated and documented prior to 30th June 2014.
- Working From Home Expenses - expenses can be claimed for working from home (as distinct from having a home office). However, you could be subject to capital gains tax when you subsequently sell the property.
- Expenses For Shareholding Investments - expenses incurred in gaining income from shares are a tax deduction.
- Legal Costs - review any legal costs that have been incurred. If the legal costs relate to regular business operations, e.g. debt collections, separate them from costs relating to capital items which are not claimable for income tax purposes.
- Luxury Car Tax - the Luxury Car Tax is 33% and applies to the GST inclusive value in excess of \$60,301 (including GST). The Luxury Car Tax for "fuel efficient vehicles" applies from a cost of \$75,375.

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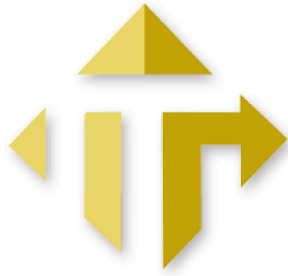
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Deductions On "Accruals" Basis - (Subject To Income Tax Return Being Lodged On An "Accruals" Basis)

- Fringe Benefits Tax Payment (Accruals Basis) - if a Fringe Benefit Tax instalment is due on 21st July 2014, it can be accrued and claimed as a tax deduction in the year ending 30th June 2014.
- Commissions Owing (Accruals Basis) - where employees or another business are owed commission by your business for services rendered up to 30th June 2014, the accrued amount can be claimed as a tax deduction at 30th June 2014.
- Bad Debts (Accruals Basis) - actually write-off any bad debts prior to 30th June 2014 and prepare minutes authorising the write-off.
- Interest (Accruals Basis) - any accrued interest outstanding on a business loan, that has not been paid at 30th June 2014, can be claimed as a tax deduction at 30th June 2014.
- Salaries & Wages (Accruals Basis) - the accrued expense for the days that employees have worked, but not paid at 30th June 2014, can be claimed as a tax deduction at 30th June 2014.
- Commercial Bills (Accruals Basis) - where the term of a Commercial Bill expires beyond the 30th June 2014, the discount applicable to the period up to 30th June 2014 can be claimed as a tax deduction.
- Rent (Accruals Basis) - if rent is in arrears, the part that is owed up to 30th June 2014 can be claimed as a tax deduction.

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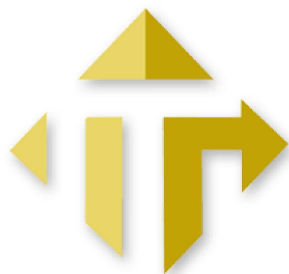
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Stock

- Stock On Hand - review stocktake list as at 31st May 2014. Determine whether to conduct "sales" prior to 30th June 2014. Conduct stocktake as at 30th June 2014. If you are conducting regular "rolling" stocktakes throughout the year, it may not be necessary to conduct a stocktake as at 30th June 2014. Stocktaking may not be necessary if you are a small business entity.
- Value Of Stock - stock can be valued at different individual methods for each item of stock:
 - Cost;
 - Sales Value; or
 - Lower of Market Value or Replacement Cost.
- Obsolete Stock - identify any obsolete stock and decide whether to clear or dump that stock prior to stocktake.



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Assets

- Fixed Assets - determine if there are any benefits in scrapping any fixed assets to obtain the tax write off prior to 30th June 2014.



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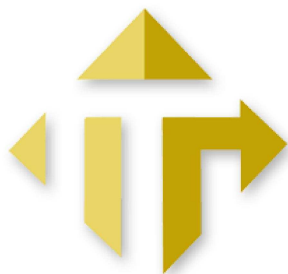
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Employment Issues

- Payment Summaries - payment summaries have to be prepared and sent to all employees by 14th July each year.
- PAYG Withholding Tax - annual summary due 14th August to Australian Taxation Office.
- Payroll Tax (if you are liable) - you have to prepare a reconciliation of total payroll for the year showing the total amount of payroll tax payable and then reconcile this with the remittances that you have forwarded on a monthly basis.
- Work Cover - a Work Cover Declaration is due by 31st August certifying wages paid for year ending 30th June 2014.



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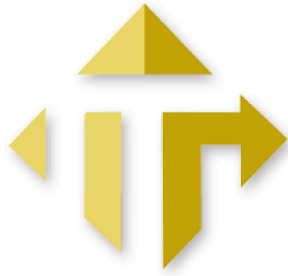
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Superannuation Funds

- Contributions to superannuation funds are taxed at 15% of the contribution.
- Earnings made in a superannuation fund are taxed at 15% and paid by the superannuation fund.
- For people 60 years or over who have started drawing a pension, payments from the superannuation fund are, in the majority of cases, tax-free.
- Generally, moneys invested in superannuation funds cannot be accessed until 55 years of age.



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Income Issues

- **Bad Debts Recovered** (on an accruals basis) - if a debtor, who had been written off as a bad debt and claimed as a tax deduction for the amount of the bad debt, subsequently pays any part of the amount owing, you have to bring the amount paid to account as assessable income in the year of recovery.
- **Deferring Livestock & Produce Sales** - farmers can defer livestock and produce sales until after 30th June 2014. However, if you are a farmer you need to assess whether you will suffer price reductions because of the decision to defer sales and the Temporary Budget Repair Levy of 2% for the component of taxable income over \$180,000 which will be in operation in 2014/15.
- **Income Splitting** - income splitting can be highly tax effective, especially if investments have been placed in the name of a lower income earner. This can be applicable where a spouse is not working and the income in the spouse's hands would therefore be taxed at a lower rate.
- **Interest Earned** - declare interest earned on bank accounts, loans, etc.
- **Employee Share Schemes** - if you are a member of an employee share scheme you should ensure that any income earned is included in your income tax return.
- **Qualifying Employee Share Schemes** - scheme formed before 1st July 2009 - any discount on the shares is subject to taxation. If the scheme qualifies under the Employee Share Scheme Rules, the employee can choose when they include the discount in their assessable income. If the employee elects to include the discount benefit in their tax return for the year of receipt of the benefit, they are eligible for an exemption of the first \$1,000 of the discount.
- **Scheme Formed After 1st July 2009** - the discounts on Employee Share Schemes are taxed either upfront or on a deferred basis. For 'qualifying' schemes, if the employee is earning less than \$180,000 taxable income plus reportable fringe benefits, reportable superannuation contributions and total investment losses, then the employee can claim a \$1,000 exemption from the inclusion of the assessable discount.
- **Government Grants** - if your business has received a grant from a government department, it is most likely paid to you on the basis that it is taxable income and therefore you need to disclose in your tax return the receipt of the government grant. If you are lodging your income tax return on a cash basis, this highlights the desirability of ensuring that all of the government grant funds have been expended on tax-deductible items prior to 30th June 2014 (if possible).

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Companies

- **Franking Account** - a company's dividend payments and franking profile should be reviewed before year-end to ensure sufficient franking credits are available.
- **Company Loans** - the law requires that the loan to the shareholder is properly documented. If there is no security offered, the term of the loan should not exceed 7 years. If security is offered, the loan should not exceed 25 years. The interest rate to be charged during 2013/14 is a minimum of 6.2%. If loans have been made to shareholders that have not been supported by properly documented loan agreements, then the Taxation Office can treat these payments as being dividends that are assessable to the shareholder.
- **Personal Service Income** - taxation laws include measures that are designed to limit the deductions available to certain contractors, whether operating as a sole-trader or through a company, trust or partnership; these are known as the Personal Services Income (PSI) measures. A taxpayer, who meets certain specified tests, will be treated as carrying on a personal services business and will be able to claim a wider range of deductions. If you are operating a personal service business you need to be aware of the Australian Taxation Office's strict approach to income retention and income splitting.
- **Non-Commercial Losses** - for a business to be commercial, under the "non-commercial losses tests", the business needs to meet certain prescribed tests. If the tests are not met, any losses arising from the activities have to be carried forward and offset in a later year against future income from the same type of source.



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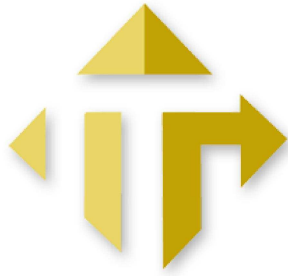
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Capital Gains Tax Items

- Matching Capital Losses and Capital Gains - capital losses are not directly deductible. Capital losses have to be offset against any capital gains generated during that financial year.
- 50% Capital Gains Tax Discount - you should check your eligibility for the general 50% capital gains tax discount for individuals. If you are a small business operator and are able to meet the \$6M net value asset or have turnover of less than \$2M, you might be entitled to further capital gains tax concessions.
- "Wash Sales" - the ATO has issued a ruling that relates to "wash sales". This is a situation where shares, in companies listed on the Stock Exchange, are sold to crystallise the capital loss and then shortly thereafter the taxpayer, or an associate of the taxpayer, purchases shares in that corporation on the Australian Stock Exchange.



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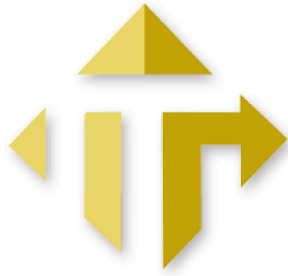
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Personal Planning

- Zone Offset - record the number of days you spend in Zone A or B, especially if you live in Zone B but spend some time in Zone A during the year.
- Personal Insurance Payments - premiums for Sickness and Accident Cover are tax deductible. Payments can be made by the employer without incurring Fringe Benefits Tax.
- Home Office Expenses - if you use an area in your home, you can claim the expenses of a home-office.
- Utilising Tax Free Threshold - every adult taxpayer has a tax-free threshold of \$18,200. If a taxpayer is verging on losses, consideration should be given to the decision being made in relation to the valuation of stock, bringing forward or delay of sales etc., to utilise the tax-free threshold otherwise it will be lost forever.
- Tax Offsets - there are a number of tax offsets available within the income tax legislation for the year ended 30th June 2014.
- Work-Related Expenses - items such as travel, uniforms, laundry of clothes, subscriptions, union fees and self-education.
- Dividends, Interest, Managed Funds Distributions etc. - the ATO matches information provided in tax returns with information received from external sources, such as public companies, banks, managed funds etc.
- End of Year Tax Schemes - the ATO produces product rulings on various investment products that are marketed particularly around 30th June each year. To avoid confrontation with the ATO, it is best to consider investing in products that have obtained a product ruling. These product rulings are not a guarantee or government endorsement on the likely success, or profitability, of the investment.
- Salary Packaging - salary packaging can also assist in the minimisation of income tax, particularly in the areas of voluntary superannuation contributions and acquisition of assets that are not subject to fringe benefit tax, such as supply of a motor vehicle. Your employer is required to report the value of fringe benefits on your payment summary. That may have an effect on other government payments you receive.
- Superannuation Contributions - special concessions are available to low income or non-working spouses relative to superannuation contributions.
- Medical Expenses - if your medical expenses exceed \$2,120, you can claim a tax rebate calculated at 20% of the excess of \$2,120 if a claim was made in the 2013 income tax return. If a taxpayer's income is above \$84,000 for singles and \$168,000 for families, the claim is limited to 10% of the amount above \$5,000.
- Wage/Salary Earners - wage/salary earners should review all of the items under Personal Planning and, in addition, give consideration to property income and expenses. If the taxpayer has a rental property, all income from a rental property should be declared. General expenses can include real estate agents fees; building allowance (can be written off at 2.5% or 4% depending on date of construction); depreciation of fixtures, fittings, plant and equipment; share of depreciation of common property in a strata titled property; repairs and maintenance; pest control; interest on monies borrowed for investment in the property; bank charges on the property bank account; cleaning; electricity; rates; land tax; insurance and travel for inspection trips by the owner apportioned for partly private travel.
- Work-Related Motor Vehicle Expenses - under 5,000 kilometres calculated at the rate advised by the Australian Taxation Office for the type of vehicle used (small cars – 65 cents per kilometres, medium cars – 76 cents per kilometres, large cars – 77 cents per kilometres).
- Managed Investment Schemes - it is recommended that you have a meeting with your professional accountant prior to committing to a Managed Investment Scheme (MIS) investment.



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Building and Construction

- Building and Construction Industry – if you're in the building and constructions industry, you have to be able to prepare a Reportable Payments Report to submit to the ATO, showing the payments you've made to each contractor for the year ended 30th June 2014. The return has to be lodged by 20th July 2014.



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Changes from 1 July 2014

- The superannuation guarantee rate will increase to 9.5%



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