

# YEAR END TAXATION PLANNING

As the taxation year end draws to a close most tax professionals will endeavour to position their clients' affairs so as to ensure they obtain the best tax outcomes. With this objective in mind, the following highlights considerations that you may be familiar with, and new items that should be addressed as part of your year end tax planning.

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## ISSUES TO CONSIDER: *Familiar Issues*

### Small Businesses

Has your business elected to be treated as a small business (SBS) taxpayer? There are special rules that allow small businesses to prepare simpler tax information and provide higher rates of deductions, especially in relation to assets. CGD can assist you in determining whether your business is eligible to enter the SBS system, and assess the benefits it may provide you.

Small Businesses (SBS) taxpayers, can seek to minimise their taxation liability by:

- Taking advantage of the immediate deductions allowable for items costing less than \$1,000 (GST exclusive).
- Claiming a 15% depreciation deduction for new assets, irrespective of when the asset was acquired, provided the asset has an effective life of less than 25 years.
- Increasing prepaid expenditure prior to year end. For example, prepayments of director's fees/bonuses, lease payments, interest, rent, business travel, insurance and business subscriptions are deductible up front provided the expenses relate to the following financial year. However in order to be able to get the prepaid expenses as deductions in the current year, it is essential that the you are definitively committed to the expense prior to 30 June.

### Corporate Taxpayers

Company taxpayers should consider the following in order to minimise their year end tax liability:

- Allocate assets acquired for less than \$1,000 (GST exclusive) to a low value pool to be deducted at 18.75% (and 37.5% every year thereafter).
- Review the asset register and identify assets that are no longer in use or will be scrapped, as an immediate tax deduction will be available.
- Revalue trading stock at year end at either actual cost, replacement cost, or market selling value. Using an alternative method may provide for greater tax deductions. Also, if stock is obsolete, the valuation adopted may be lower than those outlined above.
- Increase expenditure on certain amounts relating to the next financial year (i.e. prepayments). Generally, prepayments are not deductible until the period to which they relate has expired, however specific amounts such as motor vehicle insurance, compulsory third party insurance, workcover, salaries and wages and expenditure of under \$1,000 may be deductible up-front.

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## All Taxpayers

Capital gains tax:

- Capital gains tax can be deferred by ensuring that contracts for the disposal of property are entered into after the 30 June 2010. Alternatively, if you expect to either generate a capital loss, or have existing capital losses available, then the contractual date should be pre 30 June 2010.

Defer year end sales invoices:

- The operating income of your business may be reduced by deferring the "invoicing" of services until after the year end.

Fringe benefits tax:

- Fringe benefits tax often causes unintended additional tax liability consequences for employers. Keeping in mind exemptions such as laptop benefits and structuring car benefits carefully may help reduce the compliance burden associated with this indirect tax.

CGD can assist you in considering your salary packaging arrangements, for you or your employees, for the 2011 financial year. However, it is important that these arrangements are in place prior to the intended start of the salary package.

## Individuals

There are various taxation issues that are specific to individuals and should be revisited prior to each year end. The following table provides a list of issues that you should consider now, in light of the current and **future** tax year.

Tax Issue	Explanation	Status
<b>Medicare Levy Surcharge (MLS)</b>	Have you maintained private health insurance for the full year? If so, you should not be liable for an additional 1% MLS tax?	
<b>Medical expenses tax offset</b>	An additional offset is available where net medical expenses exceed \$1,500 (there is a comprehensive listing of eligible medical expenses which includes, among others, dental and optical treatment and laser eye surgery).	
<b>Education Tax Refund</b>	The Education Tax Refund is available to families receiving family tax benefit Part A. This allows deductions to be claimed of up to \$750 per child undertaking primary school studies and \$1,500 per child undertaking secondary school studies in respect of eligible educational expenses incurred.	
<b>Residential Aged Care expenses</b>	For the aged and senior, a tax offset is available for expenses such as daily care fees, accommodation charges and payments in relation to bonds.	
<b>Eligibility to government incentives and payments</b>	<p>From 1 July 2009 the following tax offsets are affected by not only your salary and wages, but your reportable superannuation contributions:</p> <ul style="list-style-type: none"> <li>Senior Australian;</li> <li>Mature Age Workers; and</li> <li>Spouse Contribution.</li> </ul> <p>However, for low income earners, your tax offset should not be affected by your reportable superannuation contributions. For low income earners, it is still beneficial to contribute concessional contributions (within the contribution cap), reducing taxable income to \$30,000.</p>	
<b>Salary sacrificing – Directors</b>	You may like to consider salary sacrificing some of your salary to superannuation. Directors may also be able to claim a tax deduction for this contribution. However, there are certain requirements in order to ensure the arrangement is effective (as outlined in ATO Interpretive Decision 2007/144). You should be wary of contribution caps.	
<b>Salary sacrificing – Other employees</b>	Salary sacrificing can be an effective way to reduce your net tax payable. The following benefits can usually be provided as part of an effective salary sacrificing arrangement: <ul style="list-style-type: none"> <li>Car packaging;</li> <li>Otherwise deductible benefits such as income protection premiums; and</li> <li>Exempt benefits such as laptops predominantly used for work.</li> </ul>	
<b>Personal superannuation contributions</b>	Super contributions are tax deductible subject to income tests and contribution caps. Please contact us to discuss this.	

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## Super Funds

- Employer concessional contributions have been reduced to \$25,000 for employees under the age of 50, and \$50,000 for employees aged over 50 years as at 1 July 2009.
- Life insurance expenses claimed by a superannuation fund on behalf of a member will remain deductible. However, to ensure the insurance expense is deductible the client should ensure the policy is acquired by the Trustee of the super fund.
- Pension streams for members above the age of 60 years in funds currently in "transition to pension" status are exempt from tax. Tax professionals may seek to maximise the benefits for clients by converting contributions made by such clients immediately to pension funds rather than waiting until the next financial year. However, it should be kept in mind that, for clients below the age of 65, the pension stream benefit payments cannot exceed 10% of the value of the pension fund.

## ISSUES TO CONSIDER: *New Issues*

### Division 7A

Division 7A is broadly aimed at ensuring that all funds earned by a company (which are taxed at 30%) are not withdrawn by taxpayers without paying the relevant top up tax, as if they had earned the funds themselves.

For example, a company earns a profit of \$200,000 for the year. The sole director / shareholder earns a wage of \$150,000 but wants to invest in a property in his own name and so withdraws the \$200,000 from the company's bank account. The company has paid tax of \$60,000 (being 30% of \$200,000 profit). However, if the individual had earned that \$200,000 (in addition to their salary) they would have paid tax at 46.5% (or \$93,000). In brief, Division 7A may apply to this scenario to either:

- Deem the \$200,000 to be a dividend (unfranked) to the Director, which would have to be included in his taxable income, or
- Force the Director into signing a loan agreement, to repay the loan over either 7 years or 25 years (where secured by registered mortgage over real property), with minimum yearly repayments and interest payable.

The ATO is reviewing Division 7A compliance and has released a number of statements in relation to their interpretation of how this division applies. The ATO has recently caused a stir in the industry, by seeking to treat unpaid present entitlements (i.e. where a trust makes a distribution but does not pay the distribution in cash to the beneficiary) as loans.

Division 7A compliance is a serious issue for all taxpayers.

Many clients are unaware that they have an issue with Division 7A compliance as the legislation is difficult to read and understand, and small accounting practices often do not have the required resources.

It is therefore critical that your compliance with Division 7A is reviewed. A Division 7A review includes analysing all loan and unpaid present entitlement balances of entities within your group. Division 7A applies to more than just drawings by Directors / Shareholders, but also encompasses payments made on their behalf, Trusts and interposed entities.

CGD can assist you in identifying Division 7A issues, and mitigate these issues by:

1. Placing all inter-entity loans drawn within the year on a commercial loan agreement.
2. Considering whether other options are available to mitigate any negative tax consequences, for example debt forgiveness.
3. Consolidating prior to year end. However, this option requires careful consideration of the costs, benefits and whether any other tax attributes may be affected (e.g. availability of losses) as it cannot be reversed.

## KEY DATES

### JULY

Sun	Mon	Tue	Wed	Thu	Fri	Sat
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

15 July 2010

- Income tax returns due for 31 December tax year end entities

21 July 2010

- June 10 monthly activity statement
- Annual payroll tax reconciliation

28 July 2010

- June 10 quarterly activity statement due (if lodging on paper form)
- Payment required of June quarterly superannuation employer contributions

### AUGUST

Sun	Mon	Tue	Wed	Thu	Fri	Sat
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30	31				

14 August 2010

- Annual PAYG Withholding report

21 August 2010

- July 10 monthly activity statement

25 August 2010

- June 10 quarterly activity statement due (if lodged by tax agent)

### SEPTEMBER

Sun	Mon	Tue	Wed	Thu	Fri	Sat
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30		

21 September 2010

- August 10 monthly activity statement

## ABOUT CGD

CGD Business Solutions is a progressive accounting practice CGD is founded on the basis of working closely with clients; delivering quality services to help clients establish and grow their businesses. Our key staff members have achieved senior positions with a Big 4 Melbourne accounting firm, and have developed strong tax technical skills and business know how.



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Services provided include:

- Accounting, including preparation of special purpose financial reports;
- Taxation, including preparation of income tax and fringe benefits returns, activity statements, tax risk and review analysis, assistance with ATO audits;
- Outsourced back office functions including virtual CFO's and management consulting;
- Self managed superannuation fund administration and advice;
- Specialist taxation advice, including tax structuring;
- Tax effect accounting / financial accounting disclosures.

**For a *complementary business & taxation health check*, please do not hesitate to contact our office to organise a meeting.**