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## GETTING READY FOR YEAR END

Preparation is the key to efficient and effective business planning for the year ahead.

The beginning of the new financial year is the perfect time to establish the business goals and put in place a plan to achieve them.

Contacting a tax professional can help the business to tailor a structured plan to the individual circumstances. This will help ensure that the business is prepared for the coming tax year.

# YEAR END STRATEGIES

THE 2013/2014 TAX GUIDE FOR YOU AND YOUR BUSINESS



## New penalties for SMSF trustees

The ATO has warned SMSF trustees about a new range of administrative penalties that can be imposed for a range of breaches of the law.

This includes breaches that may be inadvertent. This new legislation received Royal Assent on 18 March 2014 and will make new penalties available to the ATO for breaches that occur on or after 1 July 2014.

The legislation will also apply to contraventions that were made prior to 1 July 2014.

Examples of breaches of law include:

- loan to a member of the fund
- failure to prepare accounts in a year of income
- failure to keep minutes

The new penalties are designed to make it easier for the ATO to impose a monetary penalty on trustees who breach the law. The penalties will range from \$850 to

\$10,200 depending on the type of breach that has occurred.

This monetary penalty will apply to the trustees personally and cannot be paid using the super fund's assets.

The ATO has stated that if trustees are making progress in resolving the contravention by 1 July 2014 it will consider these circumstances in any request to remit any imposed administrative penalties.

These new penalties represent a significant change for SMSF trustees. The ATO's ability to issue monetary penalties in the past has been restricted due to the severity of penalties available to them.

It is expected that the ATO will adopt a practice of imposing administrative penalties and require trustees to demonstrate that the penalty was unwarranted.

These changes have increased the risk that trustees will be exposed to financial penalties if a breach of the law occurs, so it is important that trustees ensure that they are vigilant in meeting all compliance requirements.

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## Year end super strategies

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

### Spouse contributions

The spouse super tax offset allows higher earning taxpayers who contribute super for their non-working or low income earning partners to be eligible for a tax break.

To be eligible for this benefit the lower earnings spouses' income, total reportable fringe benefits, and reportable employer superannuation must have been less than \$13,800 in the financial year.

### Salary sacrifice

A salary sacrifice arrangement is where an individual agrees to forego part of their future salary or wages in return for their employer providing benefits of a similar value.

Salary sacrifice contributions count towards an individual's concessional contributions cap.

### Government co-contributions

The Government co-contribution scheme is an initiative for Australians to make a bigger commitment to their super savings and to give individuals more money to add to their superannuation fund.

Eligible Australians who earned less than \$33,516 in the 2013/2014 financial year will receive 50 cents for every dollar, up to a maximum of \$500, of after-tax money that they contribute to their super account.

Individuals who earn over \$33,516 will have their Government co-contribution reduced by around three cents for every dollar over that amount, up until it reaches zero at \$48,516.

To be eligible individuals must under 71 years, and make at least one personal super contribution and be a permanent resident or citizen.



### Concessional contributions

The 2014-15 financial year will see an increase in the concessional contributions cap. The present cap of \$25,000 will increase up to \$30,000.

The indexation will not apply to the temporary higher cap of \$35,000 currently available to those individuals 59 and over as at 30 June 2013 (for 2013-14). However, the temporary higher cap will extend to individuals who are 49 and over as at 30 June 2014, and will apply for the 2014-15 financial year.

### Non-concessional contributions

The indexation of the concessional contributions caps has some flow-on effects the non-concessional contributions cap. Therefore, from 1 July 2014 the non concessional contributions cap will increase from \$150,000 to \$180,000.

## Review of management accounts

Business owners should be taking the time to review the business management accounts a few months prior to 30 June 2014.

This is best done with a tax advisor as they can help to identify tax areas and opportunities that may require further consideration.

A few key areas that need to be reviewed prior to year end include:

### Owner's salary

Business owners should consider the salary they are receiving. Owners should review the overall position of their business with the view of increasing or decreasing their personal salary accordingly. Owners may often find that there is an added cost in paying a larger salary to themselves, especially if it is not necessary

### Estimated tax position

Owners should calculate the estimated tax position for the year. This will assist with the year end planning and budgeting.

If the estimated tax payable is lower than anticipated, it is a good idea to consider varying the entity's June business activity statement to lower the final PAYG instalment payment for the year.

### Other considerations

Owners should also consider additional superannuation contributions, prepayment of expenses, deferral of income and writing off assets.

## Work-related travel expenses

Travelling to work can end up costing an individual hundreds of dollars.

However, eligible individuals are able to boost their tax refund with some deduction claims. Individuals are able to claim a deduction if they incur any travel related expenses that directly relates to their specific job function.

Depending on the individual's circumstances they can claim the cost of transport, incidentals, and meals for overnight trips. However, they must be able to provide the necessary documentation.

Some of the travel expenses that can be claimed on a tax return include:

- air, bus, train and taxi fees
- bridge and toll fees
- parking fees
- car hire charges

To claim any travel expenses, the travel must be explicitly work-related.

Overnight trips should also include a travel diary to support any claims.

Individuals are usually unable to claim for travel between their home and work but can claim for travel between two workplaces. This principle applies whether they travelled by train, bus, taxi or private vehicle.



# Tax tips for property investors

It is an ideal time for individuals to review their investment situation and take the opportunity to minimise their tax obligations.

Here is a list of tax tips for property investors:



## 1. Renovations by previous owner

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

## 2. Repairs at time of purchase

Expenses for repairs to the property are deductible provided that they relate to wear and tear or any other damage as a result of earning rental income.

## 3. Prepay property expenses

Individuals may be able to prepay property expenses up to 12 months in advance. Prepaid expenses are not automatically deductible. A review of eligible payments should be carried out.

## 4. Depreciation schedule

A depreciation schedule prepared by a

qualified quantity surveyor outlines the deductions available on an investment property. This can help to add a significant tax deduction for depreciation and also maximise an individual's cash return. The cost of a depreciation schedule is tax deductible.

## 5. Travel expenses

Travelling to a property to inspect, carry out maintenance or collect rent may be able to be claimed as a tax deduction.

## 6. Keep receipts

It is important to keep all receipts to be able to prove deductions and show why the expense was incurred to derive assessable income.

## 7. Property data matching

The ATO uses data matching techniques, including monitoring property transaction details to target property investors ensuring the correct amount of tax is paid.

# 2014 year end tax tips



## Bad debts

Bad debts are taxable sales that have been overdue for 12 months or more and have no chance of being recovered. It is important to write off bad debts before year end. It must not be bad, not merely doubtful and must have been previously included as assessable income.



## Trust distributions

Trustee distribution resolutions are needed before 30 June 2014, or individuals can expect to pay 46.5 per cent on trust profits.



## Prepaid Interest

There is potential for big tax refunds for prepaid interest for a capital protected share portfolio, with no cash required by 30 June.



## Self education

To claim a deduction for self-education expenses individuals must show that the course maintained or improved a skill required for their current work activities, or that it was likely to lead to an increased income.



## ATO benchmarking

Benchmarks have been developed to identify taxpayers who report income or expenses different to similar businesses. It allows the ATO to identify businesses that are not fulfilling their tax obligations.



## Write off obsolete inventory

The year end stock take should involve a review of all inventory and identify any damaged or obsolete stock. Obsolete stock may be scrapped or valued below cost subject to specific guidelines. Receipts must be kept so that all deductions can be substantiated.



## Capital expenditure vs repairs

Review all spending during the year to determine if all items are deductible or if they are capital by nature and need to be depreciated.



## Review unpaid expenses

Businesses who are falling behind in their rent and other expenses that work on an accruals basis may claim the arrears amount as a tax deduction.



## ATO compliance

Businesses should be aware of any ATO changes that have occurred throughout the year as penalties can apply for those who fail to be compliant.



## Prepay expenses

Prepaying expenses that cover a period of no more than 12 months is a good way to bring forward operating expenses before 30 June. Items that can be prepaid include rent, insurance and repairs.



## Depreciation schedule

The depreciation schedule can add a significant tax deduction. The cost is also tax deductible. For businesses which maintain depreciation schedules, it is important to review them to ensure there are no items which are no longer on hand and could be written off.



## Small business CGT concessions

Individuals operating a small business may be eligible for CGT concessions on the sale of business assets.

## Introduction of Stronger Super

The Federal Government has introduced a series of reforms, known as 'Stronger Super.'

These reforms are set to deliver major changes to Australia's superannuation system. Stronger Super will impact super funds, their members and employers.



The aim of the reforms is to create a more efficient super system focused on the best interest of members.

Some elements of the reforms are:

### MySuper

MySuper is a simple, low-cost superannuation product that will replace the current default products and become the new default superannuation fund for businesses.

MySuper has been introduced to help simplify and give greater transparency to superannuation systems. MySuper accounts will offer lower fees and simpler features, so members will not have to pay for services they do not need.

As of 1 January 2014, businesses must be paying their superannuation contributions to an authorised MySuper fund. Business owners only need to choose a new super fund if their current one is not MySuper authorised.

Employees are still able to select their own fund, or manage their superannuation affairs through a self-managed superannuation fund.

### SuperStream

SuperStream is the name for a range of proposals designed to improve the processing of everyday superannuation transactions.

SuperStream is aimed at increasing the processing speed of transactions, reduce error and remove human involvement from the system to reduce the time between the employer's contribution being made and its allocation into the members account.

From 1 July 2014, employers with 20 or more employees will have to be compliant with SuperStream, and smaller employers will have to be compliant from 1 July 2015.

### SMSF

Individuals with a SMSF will need to provide their employer with their fund's ABN, bank account details and electronic service address to ensure they comply with the superannuation changes.

This information should be provided by 31 May 2014 to ensure that the individual's super does not go into a default fund.

## Claiming deductions for plant and equipment

The repeal of the Mineral Resources Tax by the Federal Government has resulted in the scaling back of capital allowance concessions from 1 January 2014.

Business owners should make sure they are aware of the changes. The capital allowances for small business entities this year end is:

- small business entities would be able



to claim a deduction for the value of a depreciating asset that costs less than \$1000 (rather than the \$6500 before 1 January) in the income year in which the asset is first used or installed ready for use

- small business entities would be able to claim a deduction for an amount included in the second element of the cost of a depreciating asset that was first used or ready to use in the previous income year
- small business entities would be able to allocate depreciating assets that cost \$1000 (rather than the \$6500 before 1 January) or more to their general small business pool and claim a deduction for the depreciation of the assets in the pool
- assets allocated to the general small business pool would depreciate at a rate of 15 per cent in the year they are allocated and a rate of 30 per cent of subsequent years and;
- if the value of a small business entity's general small business pool is less than \$1000 (rather than \$6500 before 1 January) at the end of the income year, the small business entity would be able to claim a deduction for the entire value of the pool.

## Home based businesses

Businesses that are run from home can claim deductions on their tax return.

### 1. Cost of room's utilities

These claims must be apportioned and if the portion is based on anything other than the floor area the claim must be clearly documented.

### 2. Phone costs

If a telephone is used exclusively for business, owners can claim for the rental and calls but not the installation costs.

### 3. Decline in value

This can apply to items such as desks and computers. If the equipment is also used for personal use then the claim must be apportioned.

### 4. Costs of owning the house

Owners can claim the portion of these costs that relate to the room that is used as a place of business. The most common method to work this out is using the floor area as a proportion of the whole home.