WHAT TO CONSIDER WHEN TAX PLANNING FOR EOFY

With the end of the financial year looming, it's time to think about your tax planning options before 30 June hits. We've curated a list of top things to focus on when organising your tax affairs for year-end, applicable to businesses, primary producers, trusts and individuals.

BUSINESS TAX PLANNING

The most commonly overlooked deductions that could reap big refund rewards

When running a business, the payment of suppliers by the due date is a priority. While paying bills on time is always a primary concern, most businesses are unaware of the tax savings that can result from *bringing forward* the payment of certain expenses. Let's look at the most overlooked deductions that can accelerate your cashflow by postponing your tax liability.

Paying superannuation on time and before year end
Most businesses have payroll software that enables posting payroll expenses into the general ledger by the click of a button. Employees are paid their net wage, but the superannuation contributions may be left in an unpaid superannuation account until the end of the month or quarter.

While most expenses are eligible for deduction when incurred, superannuation is only deductible when it is paid and received, on time, by a complying superannuation fund.

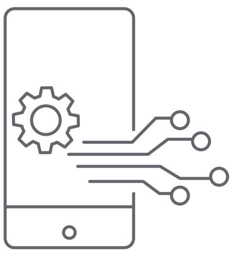
Superannuation contributions need to be received by the fund by the 28th day of each quarter (with significant penalties for late payment). The June quarter superannuation liability is only due by 28 July and is often not paid before year end. However, by paying the June quarter liability before 30 June the amount is deductible in the year it is paid should the fund receive the amount by 30 June.

Using instant asset write-off by incurring capital expenditure before year end
Considering purchasing assets to expand operations? Perhaps your plant and equipment are outdated and require updating. Small business entities (less than $10 million turnover) have previously been able to deduct assets that cost less than $20,000 immediately. This year's budget has not only increased the threshold to $30,000, but also allowed medium sized businesses (turnover between $10 million and $50 million) to access this immediate deduction for plant and equipment acquired after 2 April 2019.

Pay extra attention to small business assets acquired during the year to determine when the asset was in fact first used in the business as this may result in a better tax deduction based on these thresholds.

Writing-off bad debts before year end
If you have a non-paying customer and there is a genuine concern regarding recovery of the debt, then some or all of the debt can be deducted in the current tax year provided it is written off before year end and was included as income at an earlier time. It is important to substantiate the reasons behind writing-off the debt prior to year-end.

Keep in mind that you may be entitled to a reduction in GST for the bad debt written-off. If you are registered for GST and have included the forgiven amount in a prior period Business Activity Statement, you are entitled to adjust down the GST payable in the period that you write-off the bad debt.



Scrapping/disposing of plant and equipment before year end
Businesses should review their fixed asset registers to ensure that they are not holding plant or equipment that they no longer require due to obsolescence. Even checking for assets that your business no longer holds could save you at tax time.

Depending on the written down value of the assets, a deduction can be claimed should the asset be 'scrapped' or disposed of prior to year-end.

Valuing closing stock at lowest value
It may be time to review how your business values stock on hand. Perhaps the value of closing stock used for tax purposes is based on your management accounts that uses the higher of net realisable value or cost. The ATO allows a business to value its closing stock at any of the following values:

- Replacement value
- Cost
- Market selling value

Depending on the stock valuation under these three methods a business can obtain a significant reduction in its tax liability by adopting a method that results in the lowest value.

In certain circumstances, a taxpayer may also be entitled to a deduction for a write-down of obsolete stock where appropriate valuations and measures are taken.

Committing to staff bonuses before year-end
It is common practice for a business to create a provision for payment of staff bonuses. However, a tax deduction is only available for staff bonuses to the extent that the business is 'definitively committed' to paying the bonus. Therefore, a business looking to claim a deduction for current year bonuses should keep appropriate documentation to support approval of those bonuses prior to year-end.

Prepaying expenditure eligible for immediate deduction
Review any of your expenditure that is eligible for a discount if paid for the next year. Not only can you take advantage of this saving but depending on the expenditure it can also result in an immediate tax deduction.

Small businesses are eligible to deduct any prepayment that has a service period of less than 12 months and all businesses can deduct prepayments that are either required under a Government law or cost less than $1,000.

Accruing expenses paid after year-end
Just because you haven't paid for goods or services until the following tax year, doesn't mean you can't take advantage of the deduction this year. To the extent that services are provided to you before year end even though they are invoiced after year end, and the cost can be reasonably estimated, the expenditure is deductible in the year in which the service was provided.

Deducting 'consumables' contained within closing stock
If your business holds consumable stores or spare parts that are to be used within three months after year end, the ATO's view is that businesses can deduct the costs of consumables in the year acquired, as opposed to having to include the amount in closing stock. It can be beneficial for businesses to review their consumables and claim upfront where possible.

Immediate deductibility of start-up costs
If you started your small business during the current year (or will do before year end), the costs associated with starting the business will be deductible (e.g. accounting fees, legal costs, company incorporation costs and trust deed costs).

DIVISION 7A LOANS

Company loan to shareholders
If you are a shareholder or a shareholder's associate and you borrowed money from a company for personal use during the 2019 financial year, these loans need to be repaid or placed on a complying loan agreement by the lodgment due date of the company 2019 tax return. If not, there is a risk that the loan will potentially be treated as a deemed unfranked dividend and taxed in the shareholder/shareholder's associate hands.

In respect to existing Division 7A loans, please ensure the minimum annual loan repayment is received by the company prior to 30 June 2019.

PRIMARY PRODUCERS

Profit from forced disposal of livestock
With many areas around Australia being affected by adverse weather conditions, some farmers have been forced to destock pastures. Flood and drought affected areas may be eligible for tax relief in this situation.

This includes spreading the profit on disposal of livestock over a five-year period or electing to defer the profit to reduce the replacement cost of livestock. Any profit not used in the disposal year or any of the next five years would then form part of assessable income in the fifth income year.

Primary production income averaging
Primary production averaging can be used to average the income of primary producers over a 5-year period. When a primary producer's average income is less than their taxable income, they are entitled to an averaging tax offset. If their average income is more than their taxable income will be subject to pay complementary tax.

Careful planning and review within a farming group could result in significant tax savings in minimising any complementary tax.

Farming management deposits (FMD)
From 1 July 2018, the maximum amount of all deposits that can be held by an individual is $800,000, with a minimum amount remaining at $1,000.

If you are experiencing financial hardship and wish to access your FMD early, please contact our office to discuss what options may be available.

TRUSTS

Trust distribution minutes
Ensure you speak to your tax advisor to ensure your trust distribution resolutions are in place by 30 June 2019.

Be aware that if you are planning to distribute to any new beneficiaries (e.g adult children, corporate beneficiaries) for the 2019 year or beyond you need to ensure a Tax File Number (TFN) report has been lodged notifying the ATO of the beneficiaries' TFN before the end of the financial year if not already done. This is to notify the ATO of any new beneficiaries as they have an obligation to provide their TFN to avoid having TFN withholding applied to payments at a hefty rate of 47%.

Division 7A Loans – Trust distributing to a company
When deciding to distribute income from a Trust to a Company during the 2019 financial year to benefit from a lower company tax rate, ensure you have considered Division 7A consequences.

Where a Trust distributes income to a Company, the Unpaid Present Entitlement (UPE) may result in a deemed dividend if the UPE is not repaid by the lodgment due date of the Trust's 2020 Income Tax Return or placed on a complying Division 7A loan agreement or Sub Trust Agreement.

INDIVIDUAL TAX PLANNING

Bring forward deductions
Taxpayers who own an investment property or have an investment portfolio margin loan may consider prepaying interest up to 12 months in advance (service period ending prior to 30 June 2020) on investment loans and claiming a deduction in the 2019 year for the prepayment.

Motor vehicle claims
If you frequently use your own vehicle for work related travel, a logbook may increase your motor vehicle deduction. A logbook must be kept for 12 consecutive weeks and must be updated every five years or whenever your vehicle use materially changes. In addition to maintaining a logbook ensure you keep written evidence of all motor vehicle expenses such as insurance, services, license and registration paid during the 2019 financial year.

If you do not maintain a logbook the maximum kilometres an employee will be entitled to claim is 5,000 kilometers at a rate of 68 cents for the 2018-19 financial year.

It is important to note, in most cases, home to work travel is not included as work related.

Donations
A donation to a Deductible Gift Recipient (DGR) may be a great way to reduce your taxable income while contributing to a good cause.

If you intend to make a donation prior to 30 June 2019, ensure that the donation is made to a DGR and that you maintain the receipt. A list of DGRs are available on the ATO's website.

Income protection policy
If your income protection policy is owned by you personally it is an income tax deduction in your individual tax return. It may be wise talking to your financial advisor about your income protection policy being in your personal name instead of your superannuation fund to result in a personal tax deduction. In addition, to increase your deduction it may be beneficial to pay your policy annually prior to year-end instead of monthly.

Managing capital gains exposure
You may consider reviewing any capital gains made during the financial year. If you have had a capital gains tax event during the year, evaluate any other assets you hold that are in a loss position and consider if it is an appropriate time to sell these to reduce your capital gains tax exposure.

Be aware that individuals have access to the 50% capital gain concession if they hold an asset for more than 12 months.

Superannuation contributions – Concessional contributions
Just before the financial year end is a great time to do a financial check of your funds and if you have any excess cash it might be worthwhile investing in your retirement and topping up your superannuation fund.

Any concessional contributions made into your superannuation fund up to the cap of $25,000 is an income tax deduction against your assessable income. Since 1 July 2017 you are now able to make concessional contributions to your superannuation fund regardless of how your income was received. This means even if you are not self-employed you can still make an eligible concessional contribution and have the amount deductible in your tax return.

However, if you are over 65 and under 75 you must still satisfy the "work test". This requires that you are employed and undertaking paid work for a minimum of 40 hours in any 30 consecutive day period to make voluntary contributions.

The annual concessional contributions cap is now $25,000 for all individuals. For those with a super balance of less than $500,000 at the end of June 30 in the previous year, the new rules allow you to carry forward your unused concessional contributions cap amounts from 1 July 2018. The first year in which you can increase your concessional contributions cap by the amount of unused cap is 2019–20. Unused amounts are available for a maximum of five years and expire after this.

If you have had more than one job during the financial year you should make sure that you have not exceeded your concessional contribution cap as excess contribution amounts will be taxed at the marginal tax rate plus an excess concessional contributions charge.

To claim a deduction for superannuation contributions in your income tax return you must provide a signed notice (Section 290-170 notice) to your superannuation fund to notify them of your intention. You must receive an acknowledgement notice from the fund confirming your contribution, prior to the lodgement of your individual income tax return.

Non-concessional contributions (after–tax contributions)
For members under 65, non-concessional contributions are subject to a yearly cap of $100,000 or up to $300,000 over a three-year period depending on their total superannuation balance.

Members over 65 but under 75 can still contribute up to $100,000 a year however are not eligible for the three year 'bring forward' non-concessional contribution.

Contribution and 'bring forward' available to members under 65:

Superannuation balance	Contribution and bring forward available
Less than $1.4 million	Access to $300,000 cap (over three years)
Greater than or equal to $1.4 million and less than $1.5 million	Access to $200,000 cap (over two years)
Greater than or equal to $1.5 million and less than $1.6 million	Access to $100,000 cap (no bring-forward period, general non-concessional contributions cap applies)
Greater than or equal to $1.6 million	Nil

Members are not eligible to make non-concessional contributions once they are 75 or older.

Due to the strict rules and regulations around superannuation funds and member contributions we advise you to contact us prior to making any non-concessional contributions as excess contributions will be taxed at 47%.

Division 293 tax on superannuation contributions
Individuals with an adjusted taxable income over $250,000 will be subject to an additional 15% tax on their taxable superannuation contributions. This amount has reduced from prior years' threshold of $300,000.

Medicare levy surcharge
Singles and families who do not have adequate private health insurance cover will be liable for the Medicare levy surcharge. This is determined by the income thresholds, set out in the table below.

	No change	Threshold 1	Threshold 2	Threshold 3
Singles	$90,000 or less	$90,001–$105,000	$105,000–$140,000	$140,001 or more
Families	$180,000 or less	$180,001–$210,000	$210,001–$280,000	$280,001 or more
Rate	0.0%	1.0%	1.25%	1.5%

Note: The family income threshold is increased by $1,500 for each dependent child after the first child.

Ensure you have appropriate private health insurance going forward to avoid paying the Medicare levy surcharge.

INTERNATIONAL AND MULTINATIONAL ENTERPRISES

New hybrid mismatch disclosure
Australia has now enacted a new hybrid mismatch regime that generally applies to income years commencing on or after 1 January 2019. The rules apply broadly to all Australian inbound and outbound groups – regardless of their size – and are very complex in their application. Where they apply, they will predominantly deny Australian entities deductions (or in some cases include non-taxable items within taxable income).

It is important that taxpayers with international dealings undertake an appropriate level of self-assessment in relation to the new rules when completing their income tax returns – both as a matter of tax risk management and because they will specifically be asked whether they are party to any hybrid mismatches in their International Dealings Schedule.

See our Tax Insight regarding these new rules for further information.

RSM

Significant Global Entities (SGEs) and Country-by-Country Reporting

If you are a member of global group with more than A$1 billion in annual turnover, then it is likely you meet the definition of an SGE. As such you may be subject to the Country-by-Country reporting regime.

This is the second year of the regime and as part of an SGE, broadly you will be required to lodge a Country-by-Country Report and Master File in the jurisdiction of your head office, and a Local File in Australia (ALF) within 12 months after the end of your income year. The ALF is an electronic lodgement comprising details of your cross-border transactions and a Short Form Local File containing descriptions of the local business activities of your Australian tax group(s). Significant penalties for late or non-lodgement apply.

Tax return disclosures and transfer pricing documentation

Taxpayers with related-party cross-border transactions are required to review and self-assess their transfer pricing positions on a contemporaneous year-on-year basis by the time of their income tax return lodgement. This means ensuring that the terms and conditions (particularly including the pricing) of your transactions are equivalent to what third parties would have entered into under comparable circumstances.

If you have cross-border transactions totalling A$2 million or more, you will also be required to disclose cross-border transactions in your International Dealings Schedule (IDS), a part of the income tax return. Alternatively, if you are an SGE, you may instead be required to lodge an ALF.

In order to qualify for protection against what may otherwise be significant penalties for the failure to adopt appropriate transfer pricing positions, multinational groups will typically prepare transfer pricing documentation in a manner which is commensurate with their risk profile. Depending on the quantum and complexity of your arrangements, this qualification could be managed through simplified transfer pricing documentation or may in other cases necessitate more comprehensive documentation including benchmarking. The preparation of transfer pricing documentation is further encouraged through the requirement for taxpayers to self-assess the extent of their transfer pricing documentation in their IDS or ALF. A low documentation indicator has the effect of raising the ATO's perception of a taxpayer's risk profile, which may increase the likelihood of a risk review.

Contact us to determine which documentation option is best suited to your requirements.

Residency

The High Court's decision in Bywater Investments Limited / Hua Wang Bank Berhad v. Commissioner of Taxation broadly means that foreign-incorporated entities of Australian groups need to actively be able to demonstrate that their central management and control (CM&C) is located in their country of incorporation and not in Australia. This can trigger an array of significantly adverse issues, from both an Australian and foreign tax perspective.

This has been overlaid by the ATO's guidance in [Taxation Ruling 2018/5]) together with Practical Compliance Guideline [2018/9], which has allowed for a limited "transitional compliance" relief, to the effect that the ATO will not devote compliance resources to qualifying groups that have taken active steps to correct any deficiencies in their management of tax residency before 30 June 2019

RSM