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CERTIFIED PRACTISING ACCOUNTANTS

CCB ACCOUNTANTS

Client Information Newsletter - Tax & Super

June 2015

Small business: Decisions for your end-of-year planning

There are a variety of decisions that are required to be made at year end to manage your tax bill. Your choice will be based on your businesses activities both past and future and also when you are looking to exit.

In relation to deductions, the general rule is that you can claim deductions for expenses your business incurs that links to making or trying to make income. Many of these deductions are obvious – rent, materials, and supplies are common examples. This year, small business owners are spoilt with the increase in the instant asset write-off amount to $20,000.

There are also some often overlooked and not so obvious tax deduction tactics you may be able to take advantage of in the run-up to the end of this financial year. These may not suit every business, so check with this office to ensure they are applicable to your situation.

Interest on loans

You can deduct interest charged on money your business borrows, including interest paid on business loans, overdrafts and other finance facilities. But there are some other aspects related to interest deductions that can easily be overlooked.

Any interest that is accrued on a business loan but not physically paid by June 30 may be deductible in that year. It is a fact of life that many sole traders fund some business activities through their personal credit card or a personal loan. Because the interest costs are not being incurred under the business name, but in the name of the business owner, many operators have unfortunately assumed that a deduction cannot be claimed. But remember — the tax of a sole trader's business activities is dealt with through the personal taxes of the business owner, so the interest on borrowings made for business purposes, even on the personal credit card, still may qualify to be claimed as a deduction.

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About this newsletter

Welcome to CCB Accountants' client information newsletter, your monthly tax and super update, keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics raised please contact us.

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Manage the value of your trading stock

Tax time is a good opportunity to do a stocktake on your business to see if you can uncover any deductions from your trading stock that you have on hand – anything you produce, manufacture, purchase for manufacture, or sell for your business.

If your stock level changes by more than $5,000, you must take into account the change in value of your trading stock when you work out your taxable income for the year. If the value of the trading stock is higher at the end of the year than at the beginning, then the rise counts as part of your assessable income. But if your stock is worth less (or worthless), that decrease is an allowable deduction.

There are three different methods of valuing stock: the price you bought it for; its current selling value; and its replacement value. You can choose which you use for which piece of stock, providing you the opportunity to maximise your deductions. You can also write down the value of any damaged or obsolete stock (potentially to nil) that hasn't been sold.

Also, even if your stock levels change by less than $5,000, you can still chose to revalue your trading stock by one of the methods mentioned above. Note that the value of trading stock does not include GST where you are entitled to a GST credit. You should always keep records of the reasons that you have valued or written off your stock.

A CGT tactic

Consider whether you are sitting on a CGT gain for the current financial year or you have prior year CGT losses carried forward, and look at offsetting these gains or losses.

If your business is due to sell some assets that will realise a capital loss, try to crystallise these losses before June 30. Losses can be offset against taxable capital gains that you may make on selling other assets. If however the sale will produce a capital gain, delay crystallising this gain until the 2015-16 income year so that you will have a full fiscal year to get an offset for that gain.

And if there are assets that may produce a capital gain, this could help your decision on the timing of making any capital losses. It may even be worthwhile for you to sell an underperforming asset, and realise a loss, if this suits your CGT circumstances.

As a general rule, the disposal of a CGT asset occurs at contract date — this could help in your planning if you sell an asset where settlement and/or payment takes place in 2015-16 but the contract is executed in 2014-15.

The good news about bad debts

It's a problematic fact of running any small business on credit that sometimes customers simply fail to pay for the goods or services you've sold them. But you can claim a tax deduction for the bad debt.

A bad debt is any owed amount that you have genuinely written off by year-end that you have previously been taxed on. It might pay to go back through your outstanding invoices to identify any doubtful debts to determine whether that have actually gone bad and write them off before the tax year ends on June 30. Contact this office for information on what constitutes a write-off for deduction purposes.

Also, if you calculate your GST on an accrual basis, don't forget to claim a refund for the GST you paid to the Tax Office when you issued the original invoice on your June BAS. If the debt is settled later, record this as assessable income in the period it is paid.

Commit to employee bonuses and director fee bonuses

Many businesses are entitled to claim a tax deduction for an expense in the year in which the business has committed to the liability regardless of whether it has actually been paid.

If you have committed to pay employees end-of-year bonuses and followed the appropriate steps, the accrued expense can be claimed as a tax deduction even though it is physically paid next financial year. A company can also claim director bonuses in the year the expense is accrued in the same way. Contact this office to have the process explained.

Take advantage of the $20,000 depreciation cap while you can

Small businesses shouldn't forget to claim for depreciation – a deduction for the loss of value and wear and tear on assets. Larger assets have usually had to be depreciated over several years, but new rules for small businesses mean that you can get an immediate tax write off for any asset costing up to $20,000. Importantly, this applies for assets acquired from Budget night (i.e. 7:30pm AEST, 12 May 2015).

For example, if your business bought a business asset worth $4,000 post-Budget night, the business could be eligible to claim an immediate tax deduction.

That said, this immense leg-up is set to expire on June 30, 2017, so if you're planning to buy any assets for your business, consider making the purchase before then to take advantage of the new cap. And, most importantly, any assets bought and used before June 30 can be included as a write-off in this year's tax return.

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Instant asset write-off also applies to cars

The $20,000 instant asset write-off in this year's budget also means there's never been a better time to consider purchasing a vehicle and getting an immediate deduction. Under the rules, a $14,000 car can attract a deduction on that whole amount. But note that it starts from Budget night and finishes on June 30, 2017, so you'll have some time to consider your options.

Planning for this year due to budget changes coming next year

Immediate deductibility for start-up costs

If you are considering starting up your own enterprise, it could pay to bide your time. Small businesses starting out from the 2015-16 income year will get to immediately deduct a range of professional expenses associated with starting a new business.

Legal and accounting costs are included, which will allow businesses to avoid deducting expenses over a five-year period and improve cash flow straightaway. For example, ask this office for advice in this area and our fees will be immediately deductible.

Tax rate changes

The 1.5% small business tax rate cut to 28.5% — assuming it's passed into law — comes in June 30, 2016. You're paying more tax now, so any savings you can make may be potentially worth more if you deduct them in the 2014-15 year rather than after. Talk to this office if you have any questions.

Dividends

Dividends will continue to be franked at 30% even though the tax rate for small business will be 28.5%, so going forward make sure you have enough tax paid to fully frank your future dividends. Ask this office for a review of your franking account.

FBT changes for work-related electronic devices

If you're a small business and provide employees with more than one qualifying work-related portable electronic device — even if the devices are similar in utility, like a laptop and tablet — you can now get an FBT exemption on those devices from April 1, 2016.

CGT roll-over relief for changes to business structure

This year's budget included a CGT rule change for small businesses that change the type of business entity under which they operate. From the 2016-17 income year, small businesses with an annual aggregated turnover of less than $2 million will be able to change legal structure without attracting a CGT liability at that point. If you are considering changing structure, also consider whether you can wait a year and save on that possible future CGT.

Last-minute tax planning tactics for individuals

This financial year is almost over, but there are still tactics you may be able to employ to make sure you pay the right amount of tax for the 2014-15 year. While the best strategies are adopted in July (that is, as early as possible in a financial year and not at the end), it's worth remembering proper tax planning is more than just sourcing bigger and better deductions. The best tips involve assessing your current circumstances and planning your associated income and deductions. Not all of the following tips will suit your specific situation, but should provide a list of possibilities that may get you thinking along the right track. Of course, check with this office if you need further information.

Investment property

Expenses stemming from your rental property can be claimed in full or in part, so it can be helpful to bring forward any expenses that can be undertaken before June 30 and claim them in the current financial year. If you know that your investment property needs some repairs, some gutter clean up or some tree lopping, for example, see if you can bring the maintenance and (deductible) payments into the 2014-15 year.

Pre-pay investment loan interest

If you have some spare cash, then see if you can negotiate with your finance provider to pay interest on borrowings upfront for the investment property or margin loan on shares (or other loan types), and allow a deduction this year. Most taxpayers can claim a deduction for up to 12 months ahead. But make

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sure your lender has allocated funds secured against your property correctly, as a tax deduction is generally only allowed against the finance costs incurred for the purpose of earning assessable income from investments.

Be aware that a deduction may not be available on funds you redraw from a loan of this type that is put to other purposes. Also, a component of the National Rental Affordability Scheme payment is not assessable income and therefore the deduction on these properties may need to be apportioned. Ask this office if you want to know more.

Bring forward expenses; defer income

Try to bring forward any other deductions (like the interest payments mentioned above) into the 2014-15 year. If you have planned that next year you will be earning less due to maternity leave or going part-time, for example, then you will be better off bringing forward any deductible expenses into the current year.

An exception will arise if you expect to earn more next financial year. In that case it may be to your advantage to delay any tax-deductible payments until next financial year, when the financial benefit of deductions could be greater. Tax planning is the key, as your personal circumstances will dictate whether these measures are appropriate.

It's probably leaving it a bit late to adopt this strategy now, but consider for July a tactic that can take advantage of this sort of timing — and place money into a term deposit that matures after June 30. Then interest accrues to you in the next tax year.

Use the CGT rules to your advantage

If you have made and crystallised any capital gain from your investments this financial year (which will be added to your assessable income), think about selling any investments on which you have made a loss before June 30. Doing so means the gains you made on your successful investments can be offset against the losses from the less successful ones, reducing your overall taxable income.

Keep in mind that for CGT purposes a capital gain generally occurs on the date you sign a contract, not when you settle on a property purchase or share transaction. When you are making a large capital gain toward the end of an income year, knowing which financial year the gain will be attributed to is a great tax planning advantage.

Of course, tread carefully and don't let mere tax drive your investment decisions – but check with this office to determine whether this strategy will suit your circumstances.

Final reminders

You can claim up to $300 of work-related expenses without receipts, provided the claims are reasonable for outgoings related to earning assessable income.

No-one knows your affairs better than yourself, so you will recognise if any of the above tax tips applies to your circumstances. But no-one is better informed as to what is appropriate, or indeed allowable, than your tax agent (and don't forget, any fee is an allowable deduction in the year it is paid).

Every individual taxpayer is required to lodge their return before October 31, but tax professionals are generally given more time to lodge, which can be a handy extension to a payment deadline.

Of course, if you're sure you are going to get a refund there is no use delaying, so in these cases it is worth getting all of your information to this office as soon as you can after July 1. ■

End-of-year superannuation planning

To get your superannuation into its best tax position, for this year-end and into 2015-16 and beyond, consult this office on which strategies suit you best. But to start with, the following tips may help point your thoughts in the right direction.

Maximise after-tax contributions

Double-check your non-concessional (after-tax) contribution figures to make sure contributions are made up to the allowable cap — now $180,000 — before the end of the 2014-15 financial year. Generally, unused cap amounts are not carried over to future financial years.

Consider salary sacrificing

Salary sacrificing is never a bad consideration to make. If you are likely to receive a bonus before year-end, you can always salary sacrifice it into superannuation rather than receiving it as cash to take advantage of the 15% concessional tax rate. However, don't forget about excess contributions tax risks.

Remember directed termination payments into super are non-concessional

Since June 30, 2012, employment termination payments can't be directed to superannuation as directed termination payments. All employment termination payments are now treated as personal contributions, and therefore may count toward your non-concessional cap for the year.

Using personal deductible contributions to offset a capital gain

If you satisfy super's "10% rule", you may be eligible to claim a deduction for your personal super contributions. A deduction could be used to possibly offset a capital gain from the sale of one or more assets. Personal deductible contributions are subject to the general concessional contributions cap. For 2014-15 this cap is $30,000, but from July 1, 2014 a higher $35,000 cap also applies for people 50 and over. Individuals over 65 will also need to meet the "gainful employment test".

Split super contributions with your spouse

If you decide to go down this route, note the full amount of the original contribution counts toward your concessional contributions cap. Any amount over the cap will be included in your assessable income and taxed at your marginal rate, making you also liable for the excess concessional contributions charge. In this case, you will get a non-refundable tax offset equal to the 15% tax paid by your fund on this amount.

In general, it's good practice to monitor your super contributions to make sure you don't inadvertently exceed a cap — especially contributions made quarterly, which may result in a payment bridging two financial years and affecting the caps of the latter year.

SMSFs: Keep within in-house asset rules

If your fund's holding exceeds 5% limit on in-house assets, reduce it by June 30 this year.

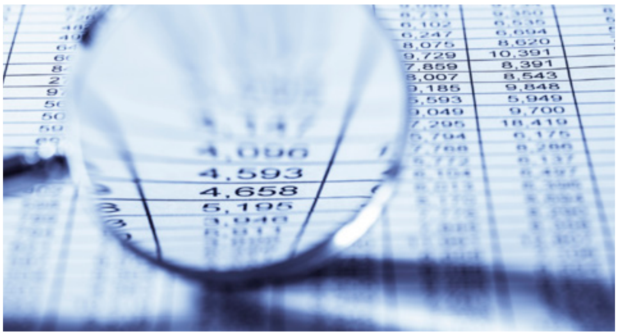
SMSFs: Make insurance more affordable

Purchase life and total and permanent disability insurance via your SMSF to benefit from the general 15% tax concessions.

SMSF in pension phase drawdowns

Make sure you have drawn down the required minimums by June 30, or the investment income derived from the assets supporting that pension may no longer be exempt from tax. If you're almost 60 and want to cash out some of your super, consider waiting until over 60 to minimise potential lump sum tax. ■

The role of auditors: An SMSF essential



Auditors play a crucial role in the compliance regime of self managed superannuation funds (SMSFs). The legislation that governs the SMSF sector requires that accounts, statements and all compliance needs of an SMSF be audited every year by an "approved auditor".

Further, this auditor must be a third party that operates "at arm's length" to the SMSF being audited. Failing to have an audit completed can lead to punishing penalties being imposed by the regulator (the Tax Office) as well as risk having your fund deemed non-compliant and losing its tax concessions.

You cannot lodge your SMSF annual return until you have had your SMSF audited. This is because you need information from the audit report to complete the regulatory information in the return.

The first step is to appoint an SMSF auditor. What you need to do is:

- check the auditor you intend to appoint is registered with the Australian Securities and Investments Commission (ASIC). ASIC will issue approved SMSF auditors with an SMSF auditor number – otherwise known as SAN – which you will need to fill out your annual return. Even though you may have previously used the same auditor, double check that they are registered

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- contact the auditor early to allow sufficient time to conduct the audit (and for this office to have enough time to lodge the SMSF annual return on time on your behalf).

Some of the criteria that must be satisfied by an auditor are that they:

- must be independent and show freedom from bias, personal interest and association
- must not be a trustee or member of the fund
- must not have prepared accounts and statements for the SMSF
- must not be a relative or close associate.

Before an SMSF auditor can start an audit however, you (or this office on your behalf) must provide information about your accounts and transactions for the previous financial year as well as statements and forms. Any additional information requested by your SMSF auditor must be provided within 14 days.

Below are examples of what you should have on hand in case your auditor wants to have a look:

- minutes of all meetings for a minimum of 10 years (or since the establishment of the fund if it is less than 10 years old) with details of all major decisions made including:
  - asset purchases
  - commencement of pensions
  - appointment of new members, and
  - review of investment strategy
- accounting records for a minimum of five years (or since the establishment of the fund if the fund is less than five years old)
- signed trustee declarations
- proper accounting records such as statement of financial position and an operating statement
- copy of trust deed
- election or notice to be a regulated fund
- trustee representation letter which is a statement by the trustees that to the best of their knowledge, they have approved and taken responsibility for the correct presentation of the financial statements
- investment strategy that gives consideration to risk, return, liquidity and diversification
- financial report on the fund, and
- working papers including copies of all relevant documents that are important in providing evidence that support your findings and opinion.

Once they have all the relevant documentation, some of the compliance issues that your auditor will keep an eye out for are:

- was the fund maintained for the "sole purpose" of providing benefits to either members on retirement or dependants (in the case of a member's death)?
- does the fund meet the definition of an "SMSF" and has it chosen to be a regulated fund?
- does the trust deed and character of investments reflect this?
- does the fund have an investment strategy that complies with investment restrictions?
- did the fund give financial assistance to a fund member or relative?
- are the fund's SMSF assets separate from those held by trustees personally?
- do trustees adhere to contribution and benefit payment standards?
- were any assets sold, and was this at market value?
- do trustees carry out administrative obligations?

More broadly, your auditor is required to:

- examine your fund's financial statements
- assess your fund's overall compliance with the super law
- provide you with an audit report by the day before you are required to lodge your SMSF annual return, and
- provide you with their SAN as it will be required to be disclosed on the annual return.

After the process is finalised, be sure that your auditor provides you with the following documents:

- a letter of audit engagement – confirms the appointment of the auditor by you and the scope of the audit to be conducted
- audit working papers – documents that record the planning, nature, timing and extent of the procedures of the audit process
- a management letter or audit finalisation report – provides a summary of the audit findings
- a copy of final, signed financial report of the fund and relevant accounting records that support the statements for the income year under review, and
- a copy of the audit report on the approved form – this includes the auditor's opinion and qualifying remarks if any (you should keep copies of this for at least seven years).

Note that an audit is required even if no contributions or payments are made in the income year. It is worth noting however that when it comes to an annual return, the Tax Office's system will not accept one if at the end of the financial year, the SMSF has no assets or no members unless that is the year the fund is wound up. ■

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Working from home — the tax implications

In general terms, the Tax Office takes the view that expenditure associated with a person's place of residence is more likely to be of a private nature. However if you produce assessable income at home, or some of it, and you incur expenses from using that home as your "office" or "workshop", you will generally be in a position to be able to claim some expenses and make some deductions.

Deductions may be available from the use of your home to earn income in two circumstances. First, if it is used in connection with your income earning activities but isn't a place of business (that is, your home is not your principal place of business, but you might do a few hours of work there). The second situation in which you may be able to claim a tax deduction is when the home is also being used as a place of business. The tax implications are different depending on which of these circumstances applies.

In broad terms, expenses fall into the following categories — depreciation on equipment, running expenses, and occupancy expenses (if the home is used as an actual place of business).

Depreciation

There are deductions available for a "decline in value" (depreciation) of items such as electrical tools, desks, computers and other electronic devices, as well as for desk, chairs and so on.

If you use your depreciating asset solely for business purposes, you can claim a full deduction for the decline in value (generally over its "effective life"). Remember however that if you qualify as a "small business entity" (less than $2 million a year turnover) you could immediately write off most depreciating assets that cost less than $1,000. Note after the Budget announcement this write off has increased to $20,000 (pending becoming law). You may also be able to pool most other depreciating assets and claim a deduction for them at a rate of 15% in the first year and 30% thereafter.

However, if you also use the depreciating asset for non-business purposes, you must reduce the deduction for decline in value by an amount that reflects this non-business use. Talk to this office for more information about claiming depreciation expenses.

Running expenses

You can generally view running expenses as those costs that result from you using facilities in your home to help run the business or home office, so these would include electricity, gas, phone bills and perhaps cleaning costs. But again you can only claim a deduction for the amount of usage from the business or home office, not general household expenses.

Using your floor area may be an appropriate way of working out some running expenses. For example, if the floor area of your home office or workshop is 10% of the total area of your home, you can claim 10% of heating costs. An alternative can be to compare before and after average usage for each cost. Another possibility is to keep a representative four-week diary to work out a pattern of use for your home work area for the entire financial year.

Instead of recording actual expenses for heating, cooling or lighting, it may be easier to use the acceptable Tax Office rates for these expenses of 34 cents per hour based on actual use or an established pattern of use. This rate is based on average energy costs used in home work areas.

To use the 34 cents per hour method of claiming, keep a diary to record the amount of time you use your home office for work purposes. The diary must show a representative period of at least four weeks to establish a pattern of use for the whole year. Remember to always keep these diaries with your tax return paperwork as you may be required to support this deduction should the Tax Office review your return.

Telephone

If you use a phone exclusively for business, you can claim a deduction for the phone rental and calls, but not the cost of installing the phone. If you use a phone for both business and private calls, you can claim a deduction for business calls (including from mobile phones) and part of the rental costs.

You can identify business calls from an itemised phone account. If you do not have an itemised account, you can

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keep a record for a representative four-week period to work out a pattern of business calls for the entire year.

Mostly what the Tax Office wants to see with all of the above expenses is that an effort has been made to establish a reasonable claim, and that the private or domestic part of these expenses has been excluded. Talk to this office about what will be most appropriate to your circumstances.

Deductions for occupancy

Occupancy expenses can only be claimed if you are using your home as a place of business, not just conveniently working from home as a salaried employee. This means that the Tax Office expects you to have an area of your home set aside exclusively for business purposes. Occupancy expenses are those expenses you pay to own, rent or use your home. These include:

- rent, or mortgage interest
- council rates
- land taxes
- house insurance premiums.

You can generally claim the same percentage of occupancy expenses as the percentage area of your home that is used to make income, and again one common way to work this out is to use the floor area put aside for work as a proportion of the floor area of your home as a whole (as can be used for some running expenses, as mentioned above).

So if for example your home office is 10% of the total area, then you may be able to claim 10% of rent costs or mortgage interest, council rates and insurance. In some situations it may be necessary to adopt a basis other than floor area, for example where say a huge workshop attached to the home may take up a great amount of floor space but contribute much less to the value of the overall property.

Note that where you are running a business from home rather than having a home office you can opt to claim occupancy expenses, such as mortgage interest. However, you'll be expected to account for any capital gain attributable to the business area of the home when you sell the house. Generally the family home is exempt from capital gains tax (CGT), but if you've carried on a business based on the above, that portion of the home attributable to the business activity will be subject to CGT. There are however some CGT concessions for small businesses, which we can detail for you should this be relevant to your situation.

Did you know...

Reward program benefits can be tax-free

Many companies, or even whole industries, offer their customers loyalty award-based incentives programs. These programs, such as the "Frequent Flyer" and "Fly Buys" schemes, are designed to reward customers for purchasing or using a company's goods and services (or indeed, those of its affiliates).

As a result of one particular court case, the Tax Office has come to accept that flight rewards received by employees in their personal capacities in respect of expenditure paid by their employer are not assessable income.

The tax treatment is based on the court's decision that flight rewards received by an individual who provides services, or who has received the reward because of "business expenditure", are not assessable as the reward arises from the personal (that is, non service/non business) contractual relationship with the rewards program administrator.

The case in question dealt with the situation where an employee who had accumulated points as a result of travel on behalf of her employer converted those points into airline tickets for her parents (the points were not convertible to cash). The court held that the points related to her membership of the program, and there was no contractual relationship between the employer and the program administrator. Consequently it was irrelevant that the employer had paid for the cost of the original travel.

An exception to this tax treatment however would be where a person renders a service on the basis that there will be an entitlement to a flight reward — that is, a person enters into a service contract understanding they will receive rewards.

The Tax Office also accepts that with consumer loyalty programs such as Fly Buys, aimed primarily at domestic purchases by an employee, no amount is assessable income. It has however stated that it may take a different view of situations where the reward accumulated in a year exceeds 250,000 points as a result of a business relationship or business expenditure, and the arrangement has no commercial purpose other than to allow the recipient to receive reward points.