

2019 EOFY Tax Planning Strategies for SME's

Below are some practical strategies that SME's should consider in the lead up to 30 June to reduce this year's tax liability.

SMALL BUSINESSES

Tax planning strategies differ if your business is considered a small business under the Tax Act.

From 1 July 2018, in order to be a small business, the turnover of the business, including connected entities and affiliates, has to be less than \$10 million GST exclusive per annum. The turnover for either the current financial year or the previous financial year can be used.

The small business turnover for accessing the 27.5% tax rate has increased to \$50 million for both the 2018/2019 and 2019/2020 years.

The following 3 strategies apply only to small businesses:

1. Instant asset-write-off boosted to \$30,000

Following the 2019 Federal Budget measures, small and medium sized businesses with a turnover of less than \$50 million (GST exclusive) can claim an immediate tax deduction for "individual" assets (including motor vehicles) costing less than \$30,000 (GST exclusive), including individual assets that form part of a set.

This immediate write-off applies equally to the purchase of new and second hand assets that are used, or installed for use, in the business from 7.30pm on 2 April 2019 until 30 June 2020.

For small business with a turnover of less than \$10 million (GST exclusive), a deduction can be claimed for each asset purchased and first used or installed ready for use, up to the following thresholds:

- \$30,000, from 7.30pm (AEDT) on 2 April 2019 until 30 June 2020;
- \$25,000, from 29 January 2019 until before 7.30pm (AEDT) on 2 April 2019; and
- \$20,000, before 29 January 2019.

2. Deduction for pre-paid expenses

A small business can claim an immediate deduction for certain prepaid business expenses where the payment covers a period of 12 months or less and that period ends before the end of the next income year. The most common expenses that you should consider prepaying by 30 June 2019 include lease payments, interest, rent, business travel, insurances and business subscriptions.

Note that your business must be obligated to make the prepayment under the relevant contractual agreement to get the immediate tax deduction this financial year - you cannot simply choose to prepay the expense.

3. Other tax concessions

A small business is also entitled to the following additional tax concessions:

- Simplified trading stock rules, giving small businesses the option to avoid an end of year stocktake if the value of their stock has changed by less than \$5,000 from the previous year; and
- The option to account for GST on a cash basis and pay GST instalments as calculated by the ATO.

Make super contributions by 30 June 2019

From 1 July 2017 until 30 June 2019, the maximum general concessional superannuation contribution limit is \$25,000 for all individuals regardless of their age.

Note that employer super guarantee contributions and salary sacrifice contributions are included in the cap. Where a concessional contribution is made which exceeds these amounts, the excess is taxed at your marginal rate, less a 15% tax offset for the tax already paid by the super fund on the excess contribution.

If you are self-employed and making a personal superannuation contribution, ensure you obtain the correct documentation from your superannuation fund to substantiate claiming the deduction before lodging your tax return.

In order to obtain a deduction in the 2019 financial year, the contribution must be received by your superannuation fund by 30 June 2019 (see below).

Super contributions made by cheque or electronic funds transfer (EFT)

Care needs to be taken where last minute contributions are made by cheque or electronic fund transfer to ensure that the deduction can be claimed in the current financial year.

Where the super contribution is made by cheque and the fund receives it by 30 June 2019, the deduction is allowed in the current financial year so long as the trustee banks the cheque within 3 business days and the cheque is not subsequently dishonoured.

Where the contribution is by EFT, it is taken to be made when the amount is "credited" to the bank account of the fund and not when the transfer is made.

Unless the contribution is made between linked accounts of the contributor and the fund (held at the same bank), the deduction may be deferred to the next financial year where the funds are not credited to the super fund account by 30 June 2019.

Defer income & capital gains tax

- Businesses that return income on a cash basis are assessed on income as it is received. A simple end of year tax planning strategy is to delay "receipt" of the income until after 30 June 2019.
- Businesses that return income on a non-cash basis are generally assessed on income as it is derived or invoiced. Income may be deferred in some circumstances by delaying the "issuing of invoices" until after 30 June 2019.
- Realising a capital gain after 30 June 2019 will defer tax on the gain by 12 months and can also be an effective strategy to access the 50% general discount which requires the asset to be held for at least 12 months. The date of the contract is the realisation date for capital gains tax purposes. In some cases, the capital gain can be further reduced to Nil under the small business capital gains tax concessions.

Family trust distributions

For the 2018/19 year, minors (i.e. children under the age of 18 at 30 June) can receive investment income (including trust distributions) of up to \$416 without paying tax. Any income earned above this amount is taxed at penalty rates.

Income received by a family trust should be allocated amongst the various beneficiaries by 30 June each year and documented by way of resolution. It is preferable that the resolution is made by 30 June 2019 to avoid any later dispute with the ATO as to whether the income was properly allocated by this date.

The exact requirements for allocating trust income are set out in the trust deed, and as each trust deed is different, it is vital that trustees are aware of the terms applying to that particular trust.

Failure to follow the terms of the trust deed and to allocate the relevant income by 30 June may result in the trustee paying tax on income of the trust at the top marginal tax rate of 49% (including 2% Medicare levy).

Note also that special rules apply to the "streaming" of capital gains and franked dividends received by family trusts to particular beneficiaries, and if you wish to stream it is critical that there are sufficient "streaming" provisions in the family trust deed which allow the trustee to do so.

Write-off slow moving or obsolete stock

All businesses have the option of valuing trading stock on 30 June 2019 at the lower of actual cost, replacement cost, or market selling value. A different valuation method may be applied for each item of trading stock.

For example, where the market selling price of stock items at year-end is below the actual cost price, your business can generate a tax deduction by simply valuing the stock at market selling value for tax purposes.

Also, in situations where stock has become obsolete at year-end (e.g. fashion clothing), your business may elect to adopt a lower value than actual cost, replacement cost, or market selling value, provided the value adopted is reasonable.

Maximise depreciation claims for non-small businesses (i.e. turnover >\$10M)

- An immediate deduction can be claimed for assets costing less than \$100 **GST inclusive** (e.g. minor tools).
- A tax deduction can be claimed for depreciable assets that are scrapped or sold for less than their written down value.
- Assets costing less than \$1,000 **GST exclusive** can be allocated to a “low value pool” and depreciation claimed of 18.75% for 2019 (37.5% thereafter) regardless of when the assets were acquired during the income year.

Claim deductions for expenses not paid at year end

All businesses are entitled to an immediate deduction for certain expenses that have been “incurred” but not paid by 30 June 2019 including:

Salary and wages. A tax deduction can be claimed for the number of days that employees have worked up to 30 June 2019, but have not been paid until the new financial year.

Director's fees. A company can claim a tax deduction for directors fees if it is “definitely committed” to at 30 June 2019 and has passed an appropriate resolution to approve the payment. The director is not required to include the fees in their taxation return until the 2019/20 year when the amount is actually received.

Staff bonuses and commissions. A business can claim a tax deduction for staff bonuses and commissions that are owed and unpaid at 30 June 2019 where it is “definitely committed” to the expense.

Repairs and maintenance. A deduction can be claimed for repairs undertaken and billed by 30 June 2019 but not paid until the next income year.

Write-off bad debts

If your business accounts for income on a non-cash basis and has previously included the amount in assessable income, a deduction for a bad debt can be claimed in 2018/19 so long as the debt is declared bad by 30 June 2019.

Your business will need to show that it has made a genuine attempt to recover the debt by 30 June to prove that the debt is bad. It's preferable that this decision is made in writing (e.g. a company directors minute).

Your business can also claim back the GST paid on debts that have been written off as bad, or where not written off as bad, the debt has been outstanding for 12 months or more.

Personal services income rules

If you conduct a business through a trust or company structure that relies on your personal effort and skill to generate the income, there are different rules that apply to the diversion of some or all of that personal services income.

For example, if your company earns personal services income, the ATO can treat the income as having been earned by the individual rather than the entity that earns the income, unless certain tests can be satisfied. The personal service income regime also denies particular types of deductions which would otherwise be available to a business.