# Practice Update

Please read this update and contact this office if you have any queries

JUNE 2007

## Budget 2007 – Small Business Initiatives

The Government has announced the following small business changes in the May 2007 Budget:

- From 1 July 2007, a business with annual turnover of less than $75,000 ($150,000 for non-profit bodies) will no longer be required to register for GST.
- From 1 July 2008, taxpayers who voluntarily register for GST will be able to pay their PAYG instalments on an annual basis.
- From 1 July 2007, any small business that makes mixed (taxable and GST-free) supplies or mixed purchases will be able to approach the ATO to discuss the development of a simplified accounting method for their use.
- From 1 July 2007, purchases by businesses of $75 or less (excluding GST) will no longer require a valid tax invoice to claim an input tax credit.

## Budget 2007 – Child care tax offset is now a direct payment

From 1 July 2007, families will receive the existing child care tax offset (i.e., a 30% rebate on out-of-pocket approved child care costs, up to a maximum of $4,000 per child, plus indexation) as a direct payment through Centrelink, soon after the financial year in which they incur child care costs.

Families will still receive the tax offset for out-of-pocket costs incurred in 2005/06 through the lodgment of the 2007 income tax return.

## Additional superannuation co-contributions

The Government announced in the May 2007 Budget that it will provide a one-off doubling of superannuation co-contributions for people who made eligible contributions in the 2005/06 income year (i.e., on or before 30 June 2006).

This means that if a person was eligible for a co-contribution of $1,500 for the 2005/06 year they will now instead receive $3,000. If eligible for a $500 co-contribution for 2005/06 year, they will now receive $1,000.

## Super co-contribution reminder

Super fund members who are eligible to receive the super co-contribution need to make personal contributions before 30 June 2007 to receive a co-contribution before January 2008.

*Editor: To be eligible to receive the super co-contribution, a taxpayer's 'total income' (assessable income plus reportable fringe benefits) must be less than $58,000, and at least 10% of that total income must be from eligible employment (e.g., salary and wages).*

The co-contribution amount will be paid directly to the member's fund after the ATO receives the fund membership information and the member's income tax return.

*Note: From 1 July 2007, people who are self-employed and make after-tax contributions will also be eligible for the super co-contribution.*

## Simplified Superannuation – Transitional Integrity Measure

The Government has announced a transitional integrity measure to stop taxpayers circumventing the $1 million contribution cap by organising for a friend to contribute on their behalf.

Under the Simplified Superannuation regime, the Government has effectively capped the amount of non-concessional (i.e., undeducted, or post-tax) contributions, that a taxpayer can make between 10 May 2006 to 30 June 2007, to $1 million.

However, where contributions are made by a person on behalf of another person between 10 May 2006 to 30 June 2007 (for example, those made by a friend), they can be taxed in the hands of a superannuation fund (generally at 15%), but such contributions may not be included in any cap.

This issue, if not addressed, could have resulted in people getting around the contribution cap by giving large amounts of money to another person to contribute to a superannuation fund on their behalf prior to 1 July 2007.

Therefore, the Government has amended the law to ensure these contributions made between 7 December 2006 and 30 June 2007 are included in the $1 million cap on non-concessional contributions.

*Editor: This transitional cap of $1 million only applies to contributions made until 30 June 2007. From 1 July 2007, a $150,000 p.a. (or $450,000 over three years) cap will generally apply to all taxpayers.*

## No need to give duplicate copies of payment summaries

The ATO has decided that employers and certain other entities will no longer need to provide their employees and other payees with a duplicate copy of their PAYG withholding payment summary *(Ed: Or 'group certificate' in the old language…)*.

This exemption basically applies to entities making the following payments:

- payments for work and services (except for payments made under voluntary agreements to withhold, payments under labour hire arrangements, or payments specified under regulations);
- retirement payments (except for eligible termination payments); and
- benefit and compensation payments.

Therefore, such entities are only required to provide the recipient with the original payment summary, and the recipient does not need to attach the duplicate to their return (if they lodge a paper return).

This exemption applies to payment summaries given on or after 1 May 2007.

## Director pays herself a bona fide redundancy payment

The AAT has held that a director of a company, was entitled to "dismiss" herself and pay herself a tax-free bona fide redundancy payment.

The sole client of the company had cancelled its contract, meaning the company went out of business and needed to dismiss all of its employees.

The company made lump sum payments of salary and holiday pay to most of the employees, and also made lump sum payments of $18,530 each to the taxpayer, her husband and her son, claiming these were tax-free bona fide redundancy payments.

The AAT held that:

- ❑ the fact that the taxpayer was involved in the decision to dismiss herself did not make the dismissal voluntary, in light of the cancellation of the contract; and
- ❑ the amount paid was not excessive.

## FBT car parking threshold

The car parking threshold for the fringe benefits tax (FBT) year commencing on 1 April 2007 is $6.78 (up from $6.62 for the previous FBT year).

## CGT improvement threshold

For the 2007/08 income year, the improvement threshold (which is used for working out when a capital improvement to a pre-CGT asset is a separate asset, and for capital improvements to CGT assets where a rollover may be available), is $116,337 (up from $112,512 for the 2006/07 year).

# 2006/2007 Year-end Checklist for Business

Many of our business clients like to review their tax position at the end of the financial year and evaluate any year-end strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around two simple concepts – i.e., accelerating business deductions and deferring income.

However, the ground rules changed forever when the Simplified Tax System ("STS") was introduced in the 2002 income year. Since then, businesses that elect to enter the STS are no longer determining their taxable income in the same way as they have done in the past.

In some instances, STS taxpayers will have greater access to year-end tax planning due to particular concessions that only apply to them. In other instances, non-STS taxpayers may be better off. The following are a number of areas that may be considered.

## Maximising deductions for non-STS taxpayers

Non-STS business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- Prepayment strategies.
- Accelerating expenditure.
- Accrued expenditure.

## Prepayment strategies – non-STS

Any part of the prepayment relating to the period up to 30 June is deductible in full.

In addition, non-STS taxpayers may claim the following prepayments in full:

- expenditure under $1,000;
- salary and wages; or
- expenditure required to be incurred under law.

*Editor: Prepayments can be a little confusing, so before you commit to making a payment please feel free to call us with any queries or assistance if required.*

## Accelerating expenditure – non-STS

This is where a business taxpayer brings forward the expenditure on regular, on-going deductible items. Non-STS taxpayers are entitled to deductions on an "incurred basis".

Therefore, there is no requirement for the expense to be paid by 30 June 2007. As long as the expense has genuinely been incurred, it will generally be deductible.

**Checklist**

The following may act as a checklist of possible accelerated expenditure:

- **Depreciating assets** costing $100 or less can be written off in the year of purchase.

  Depreciating assets costing less than $1,000 can be allocated to a low value pool and depreciated at 18.75% (which is half of the full rate of 37.5%) in their first year regardless of the date of purchase.
- **Repairs** – repairs to office premises, equipment, cars or other business items.
- **Consumables/spare parts.**
- **Client gifts.**
- **Donations.**
- **Advertising.**
- **Fringe benefits** – any benefits to be provided, such as property benefits, could be purchased and provided prior to 30 June 2007.
- **Superannuation** – contributions to a complying superannuation fund, up to the employee's age based limit. However, deductions can only be claimed to the extent contributions are actually made (i.e., they cannot be accrued).

| Age of employee in years | Deduction Limit $ |
|---|---|
| Under 35 | 15,260 |
| 35 to 49 | 42,385 |
| 50 and over | 105,113 |

## Accrued expenditure – non-STS

Non-STS taxpayers are still entitled to a deduction for expenses incurred as at 30 June 2007, even if they have not yet been paid.

The following expenses may be accrued:

- **Salary or wages and bonuses** – the accrued expense for the days that employees have worked but have not been paid as at 30 June 2007.
- **Interest** – any accrued interest outstanding on a business loan that has not been paid as at 30 June 2007.
- **Commercial bills** – the discount applicable to the period up to 30 June, where the term of the bill extends past 30 June 2007.
- **Commissions** – where employees or other external parties are owed commission payments.
- **Fringe benefits tax** – if an FBT instalment is due for the June 2007 quarter for example, it can be accrued and claimed as a tax deduction in the 2007 income year.
- **Directors' fees** – where a company is definitively committed to the payment of a director's fee as at 30 June 2007, it can be claimed as a tax deduction.

## Maximising deductions for STS taxpayers

Deductions can be maximised for STS business taxpayers by **accelerating expenditure** and **prepaying** deductible business expenses. STS taxpayers accounting for tax on a cash basis cannot accrue expenses, but STS taxpayers on an accruals basis can also now accrue expenses.

## Accelerating expenditure – STS

Where STS taxpayers account on a cash basis*, they are generally only entitled to deductions (i.e., a deduction can only be accelerated) if they have paid the amount by 30 June 2007.

This covers the following expenditures:

- general deductions;
- tax-related expenses; and
- repairs.

STS taxpayers can write-off depreciable assets costing less than $1,000 in the year of purchase. Also, assets costing $1,000 or more with an effective life of less than 25 years can be depreciated at 15% (which is half the full rate of 30%) in their first year.

Therefore, where appropriate, STS business taxpayers should consider purchasing these items by 30 June 2007.

** STS taxpayers have been able to use an accruals basis since 1 July 2005.*

## Prepayment strategies – STS

Prepayments made before 1 July 2007 will generally be fully deductible in the year they are paid where they cover a period of no more than 12 months (ending before 1 July 2008).

The kinds of expenses that may be prepaid include:

- ☐ **Rent** on business premises or equipment.
- ☐ **Lease payments** on business items such as cars and office equipment.
- ☐ **Interest** – check with your financier to determine if it's possible to prepay up to 12 months interest in advance.
- ☐ **Business trips.**
- ☐ **Training courses** – consider booking and prepaying courses that run on or after 1 July 2007.
- ☐ **Business subscriptions.**
- ☐ **Cleaning.**

## Information Required

We will need you to bring the following information to help us prepare your income tax return:

- ☐ Stocktake details as at 30 June.
- ☐ Debtors listing (including a list of bad debts written off) as at 30 June.

  *Note: In order to claim a deduction, the debt must be written off on or before 30 June.*
- ☐ Creditors listing as at 30 June.

# 2006/2007 Individual Tax Return Checklist

**Your Checklist**

- Claims for deductions ✓
- Receipts for deductions ✓
- Car claims and log books ✓
- Car record keeping ✓

Please review the information below and contact our office if you need assistance.

## Tax saving strategies prior to 1 July 2007

**Accelerating tax claims**

*As personal income tax thresholds are set to be increased from 1 July 2007, there may be an additional advantage to be had by accelerating any income tax deductions into the current income year.*

The tax rates for resident individual taxpayers for the **2006/2007** income year are as follows:

| Income threshold | Tax payable |
|---|---|
| 0 – $6,000 | Nil |
| $6,001 – $25,000 | Nil + 15% on excess over $6,000 |
| $25,001 – $75,000 | $2,850 + 30% on excess over $25,000 |
| $75,001 – $150,000 | $17,850 + 40% on excess over $75,000 |
| $150,001 and over | $47,850 + 45% on excess over $150,000 |

*Note: The Medicare levy is in addition to these rates*

## Common work-related claims made by individuals

The following outlines common types of deductible expenses claimed by individual taxpayers, such as employees and rental property owners, plus some strategies that can be adopted to increase deductions for the 2006/2007 income year.

**1. Depreciable plant costing $300 or less**

Salary and wage earners and rental property owners will be entitled to an immediate deduction if plant costing $300 or less is purchased before 1 July 2007.

Some purchases you may consider include:

- fax machines;
- beepers and pagers;
- books and trade journals;
- briefcases/luggage or suitcases;
- calculators, electronic organisers;
- software;
- stationery;
- tools of trade.

**2. Clothing expenses**

Purchase or pay for work-related clothing expenses prior to the end of the income year, such as:

- compulsory, non-compulsory (and registered), occupational specific and protective clothing;
- other expenses associated with such work-related clothing such as dry cleaning, laundry and repair expenses.

**3. Self education expenses**

Consider pre-paying the following self education items before the end of the income year:

- course fees (but not HECS-HELP fees), student union fees, and tutorial fees;
- interest on borrowings used to pay for any deductible self education expenses.

Also bring forward purchases of stationery and text books (i.e., those which are not required to be depreciated).

**4. Other work-related expenses**

Employees can prepay any of the following expenses prior to 1 July 2007:

- union fees;
- subscriptions to trade, professional or business associations;
- magazine and newspaper subscriptions;
- seminars and conferences;
- income protection insurance (excluding death and total/permanent disability).

*Note: When prepaying any of the expenses above before 1 July 2007, ensure that any services are provided within 12 months of the payment* and *before 1 July 2008. Otherwise, the deductions must be claimed over the period of the prepayment.*

## Information Required

We will need you to bring information to assist us in preparing your income tax return.

Please check the following and bring along payment summaries, statements, accounts, receipts, etc., to help us prepare the return:

**Income/Receipts**

- ❑ payment summaries for salary and wages;
- ❑ lump sum and termination payments;
- ❑ government pensions and allowances;
- ❑ other pensions and/or annuities;
- ❑ allowances (e.g., entertainment, car, tools);
- ❑ interest, rent and dividends;
- ❑ distributions from partnerships or trusts;
- ❑ details of any assets sold that were either used for income earning purposes or which may be caught by capital gains tax.

**Deductions (in addition to those mentioned above):**

- award transport allowance claims;
- bank and government charges on deposits of income, and deductible expenditure;
- bridge/road tolls (travelling on business);
- car parking (when travelling on business);
- conventions, conferences and seminars;
- depreciation of library, tools, business equipment, incl. portion of home computer;
- gifts or donations;
- home office running expenses:
  - cleaning
  - cooling and heating
  - depreciation of office furniture
  - lighting
  - telephone;
- interest and dividend deductions:
  - account keeping fees
  - ongoing management fees
  - interest on borrowings to acquire shares
  - advice relating to changing investments (but not setting them up);
- interest on loans to purchase equipment or income earning investments;
- motor vehicle expenses (business);
- overtime meal allowances;
- rental property expenses – including:
  - advertising expenses
  - council/water rates
  - insurance
  - interest
  - land tax
  - legal expenses/management fees
  - genuine repairs and maintenance
  - telephone expenses
  - travelling to inspect property;
- superannuation contributions by sole traders or substantially unsupported taxpayers;
- sun protection items;
- tax agent fees;
- telephone expenses (business);
- tools of trade.