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Chartered Accountants

Tax, Accounting & Superannuation Newsletter

June 2014

Year end tax planning

Traditional methods of year end tax planning involve prepaying deductible expenses, tax adjustments and the deferral of income.

However it is important not to incur unnecessary costs or overcomplicate things just for a tax deduction.

Prepayment of deductible expenses

An individual can claim a deduction for prepaid expenditure for a period not exceeding 12 months. The most common types of prepayments include:

- Income protection insurance;
- Interest on investment loans, share portfolios, and rental properties;
- Memberships and subscriptions; and
- Rental property expenses – insurance, rates, repairs and strata fees.

Capital Gains Tax (CGT)

Apart from deferring the disposal of investments (remembering that the sale of property occurs in the year in which the contract is signed) it is often useful to quantify the capital gains realised during the year.

A capital gain realised on the disposal of a CGT asset (a wide variety of property including real estate and shares) which has been held for more than 12 months the gain may be discounted by 50%; a significant saving. However capital losses are first applied to the gross amount of the capital gain and should any gain remain it may then be discounted by 50% under the general 12 month 50% reduction.

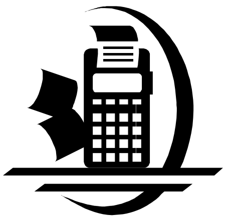
If the asset sold was used in your business there may be further scope to reduce the capital gain through the small business CGT exemptions and reductions.

Defer income - Cash or accruals reporting – recognition of income on a receipts basis will generally defer the point of derivation.

Bad debts – If recording income on an accruals method, write off bad debts before year end.

Depreciation - Scrap obsolete items and use depreciation pools. Review immediate write off limits - the government has announced its intention to reduce the instant asset write off threshold for small businesses from $6,500 back to $1,000 effective 1 January 2014. However, the amending legislation has not received royal assent.

Trading Stock - Closing stock can be valued at year end at the lesser of cost, market value or replacement value. Generally, an entity must perform a stock take to determine the physical quantity and value of each item at year end. An exception is available for small businesses for which stock levels are not expected to have varied by more than $10,000 for the year.



ATO Focus on Lodgement Dates

The Tax Office, likely through a desire to increase government cash flow, is putting greater pressure on returns to be lodged by their due dates.

Where returns are lodged late the Tax Office may allow less time to lodge the following year's return.

Put this together with increased late lodgement penalties and the costs of lodging late can really add up.

Superannuation Concessional Contributions Limits

The concessional contributions cap (limit of deductible employer or deductible personal superannuation contributions for a member in a particular financial year) is increasing from $25,000 for the year ended 30 June 2014 to $30,000 for the year ended 30 June 2015.

Members who are 59 or over at 1 July 2013 have a higher limit of $35,000 for the year ended 30 June 2014. From 1 July 2014 this higher $35,000 concessional contributions limit extends to those 49 or over as at 1 July 2014.

Employer super increased

The compulsory superannuation guarantee charge payable by employers for their employees increases from 1 July 2014 to 9.5% of ordinary times earnings.

Tax Certainty for Deceased Estates

The government now allows the tax exemption for earnings on assets supporting superannuation pensions to continue following the death of a fund member in the pension phase until the deceased member's benefits have been paid out of the fund.

The super laws require the benefits of a deceased member to be paid out of the fund as soon as practicable following the member's death. The continuation of the earnings tax exemption beyond the death of a member will be subject to this existing requirement.

This change will assist the beneficiaries of deceased estates by allowing super fund trustees to dispose of pension assets on a tax-free basis to fund the payment of death benefits.

Tax receipt

Starting from 1 July 2014, the majority of taxpayers will receive a tax receipt as part of the annual income tax return process. This is a new government initiative to make the Australian government taxation and expenditure systems more transparent.

The tax receipt provides a breakdown of how your client's tax has contributed towards government expenditure, and also includes information on the level of Australian government debt.

Penalties for SMSFs

From 1 July 2014, SMSF trustees can receive penalties of up to $10,200 for contravening certain provisions of the *Superannuation Industry (Supervision) Act 1993*.

In addition to imposing financial penalties, the Tax Office can also direct an SMSF trustee, or director of a body corporate SMSF trustee, to take action to correct the contravention or participate in education.

The penalty costs must be paid personally by the trustees. The penalty costs cannot be paid using the assets of the SMSF; and the trustee, or director of a corporate trustee, cannot seek reimbursement for the penalty from the SMSF.

Accordingly it is prudent to seek professional advice to confirm whether unusual transactions are appropriate for your fund.

Please contact our office should you have any further queries.

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