

# Solutions



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## Issue Number 38 – End Of Year Tax Planning

### Another Financial Year Is Coming To An End

This special **Business Plus+** newsletter contains commentary on many of the items that you may encounter as part of your end of financial year deliberations.

Please contact us for a copy of our End of Year Tax Planning paper and checklist. Both will assist you in identifying items that you might like to discuss with us.

### End Of Year Tips

New Equipment Requirements - Purchases of new capital equipment may be eligible for 50% investment allowance if your turnover is under \$2m (this continues until 31st December 2009) and 30% for businesses with turnovers over \$2m (this reduces to 10% for purchases made 1st July 2009 to 31st December 2009).

Accelerate Superannuation Contributions - Consider accelerating superannuation contributions before deduction limits are reduced by 50% commencing 1st July 2009.

Deferring Income - Consider deferring income, if you can, to take advantage of the lower tax rates that will apply in 2009/10.

Prepayments - If your turnover is under \$2m, consider any prepayments prior to 30th June 2009 to take advantage of the lower tax rates applicable next year.

"Cash Is King"! - Update your financial records to 30th June 2009, so you can discuss with us, possibly varying your PAYG Instalment due by 28th July 2009.



### Taxing Of Trading Income

There are two forms of taxing trading income depending on whether the business is assessed on a:-

- "**Cash**" basis - businesses are assessed when payment is received; or
- "**Accruals**" basis - businesses are assessed when a legally recoverable debt arises, usually at invoicing.

**Small Business Entity Rules**

The Small Business Entity rules apply to a sole trader, partnership, company or trust which has a group turnover of less than \$2m in the previous year, or likely to be less than \$2m the current year.

**Depreciation Rules**

If the asset costs less than \$1,000 it may be written off in full in the year in which it was acquired. Most other depreciating assets, with an effective life of less than 25 years, are pooled and depreciated at 30%.

**Trading Stock Rules For Small Business Entities**

Small Business Entities do not have to account for changes in trading stock or do a stocktake for tax purposes where the difference between the value of the opening stock and a reasonable estimate of the closing stock is \$5,000 or less.

**Entrepreneur's Tax Offset**

A tax offset of 25% is available to small business entity taxpayers with an aggregated turnover of less than \$75,000.

**Small Business Tax Break (Investment Allowance)**

An investment allowance for small businesses (with turnovers under \$2m) of 50% of eligible assets ordered between 13th December 2008 and 30th June 2009, subject to the eligible asset being installed by 31st December 2010. The special tax deduction is available on capital items such as motor vehicles, computer hardware, machinery and equipment as well as for making capital improvements to existing machinery and equipment. The bonus deduction does not apply to intangibles such as software and rights. Land and trading stock are excluded from the definition of depreciating assets and will not qualify for the tax break. Cars can qualify for the tax break, except where the taxpayer uses the cents per km method to determine their car expense deductions. Small businesses (with turnovers under \$2M) only need to invest a minimum of \$1,000 per asset in order to qualify for the tax break. Eligible small businesses can also amalgamate their expenditure in batches and sets of assets in order to meet this threshold.

**Prepaid Expenses**

A small business entity taxpayer can claim an immediate deduction for certain prepaid business expenses that satisfy the 12-month rule.

**Deductions**

**Prepayments – Small Business Entity**

Small business entity taxpayers are entitled to a deduction where the relevant services will be wholly provided within 12 months of the date of expenditure, such as office supplies, stationary, rent, advertising etc.

**Prepayments - Not Defined As Small Business**

The prepayment rule for other small businesses applies to business taxpayers with a 3-year average group turnover of \$2M or more.

*Deductions (cont.)*

**Prepayments “Excluded Expenditure”**

There is an exemption for payments of “excluded expenditure”. (See us for further details.)

**Bring Forward Deductions**

Because of the reductions in personal income tax for residents earning in excess of \$30,000 during 2009/10, it may be advantageous to bring forward payments prior to 30th June 2009. Because of the Government’s announcement that it intends to restrict the maximum allowable contribution to superannuation from 1st July 2009, consideration could be given to maximising superannuation contributions on or before 30th June 2009.

**Interest On Investment Loans**

Taxpayers who have borrowed money for a non-business investment (eg rental property) can check with their lenders to see if they can prepay interest prior to 30th June 2009.

**Bad Debts (On An Accruals Basis)**

Actually write-off any bad debts prior to 30th June and prepare minutes authorising the write-off.

**Staff Bonuses**

Ensure a cheque has been written prior to 30th June and PAYG withholding tax deducted.

**Staff Holidays**

Where practical, encourage staff to take holidays prior to 30th June 2009.

**Superannuation**

Contributions of up to \$50,000 can be made for a person under 50 and up to \$100,000 for a person 50 & over. These contribution limits change on 1st July 2009 up to \$25,000 for a person under 50 and up to \$50,000 for a person 50 & over.

**Self-Employed Persons**

Self-employed persons can obtain a superannuation deduction on the same basis as that adopted for employees.

**Salary Sacrifice Arrangements**

Salary sacrifice arrangements can be utilised to maximise superannuation contributions subject to the overall deduction limits.

**Un-Deducted Contributions**

Un-deducted contributions can be made up to \$150,000 per annum or a total of \$450,000 over a 3-year period.

**Superannuation Minimum Contributions**

Superannuation contributions have to be paid to all eligible employees who are paid at least \$450 gross per month.

**Superannuation Co-Contribution**

The Government will give lower income earners \$1.50 for each \$1 they contribute to superannuation from their after-tax salary up to a maximum of \$1,500. The government has announced changes to co-contribution from 1st July 2009.

## End Of Year Tax Planning Checklist 2009 (cont.)

### Deductions (cont.)

#### Interest On Loan Funds

Interest can be claimed on loans taken out for business purposes or to buy income producing properties and/or shares.

#### Repairs And Maintenance

Ensure that the work has been completed prior to 30th June.

#### Directors' Fees

Ensure cheques are drawn prior to 30th June and that PAYG Withholding Tax is deducted.

#### Travel Deductions

- Overseas – prepare a full itinerary & diary.
- Local – more than 6 nights you are required to maintain a diary.

#### Taxation Advice

Fees payable to an accountant or registered tax agent for taxation advice can be claimed.

#### Motor Vehicle Expenses

There are 4 methods available to calculate tax deductions for work related motor vehicle expenses:-

- cents per kilometre method;
- logbook method;
- 12% of the original value method; or
- 1/3 of actual expense method.

#### Expense Substantiation

Ensure that you can justify all employment related expense amounts incurred.

#### Depreciation

Review capital expenditure and ensure you claim depreciation at the highest legally allowable amount.

#### Donations

Any promised tax deductible donations should be made prior to 30th June.

#### Negative Gearing

The net loss, which may include interest, borrowing costs, etc may be deductible.

#### Building Allowance

Construction costs of income producing buildings can be written off at 2½% or 4% depending on date of construction.

#### Borrowing Costs

Borrowing costs can be claimed over the shorter of five years or the term of the loan.

#### Entertainment

Entertainment is not deductible unless it is provided as a fringe benefit and Fringe Benefits Tax has been paid.

#### Research And Development

Special conditions exist for businesses that incur expenses on Research and Development. Contact your Professional Accountant for information.

#### Gifts

Ensure that the payment is made to a tax-deductible charity on or before 30th June.

### Deductions (cont.)

#### Property Owner's Deductions

Property owners can claim a number of expenses against rental income, including, but not limited to, agents' fees, repairs & maintenance, travel & accommodation for inspection of the investment property, interest on loans borrowed for the property acquisition, etc

#### Audit Fees

Deductible if there is a contract that creates a presently existing liability before the 30th June.

#### Salary Packages

Ensure that salary packages for 2009/10 are negotiated and documented prior to 30th June 2009.

#### Working From Home Expenses

Expenses can be claimed for working from home (as distinct from having a home office). However, you could be subject to capital gains tax when you subsequently sell the property.

#### Expenses For Shareholding Investments

Expenses incurred in gaining income from shares are a tax deduction.

#### General Business Tax Break (Investment Allowance)

A General Business Tax Break is available for businesses with turnovers in excess of \$2M, of 30% for expenditure on eligible assets ordered between 13th December 2008 and 30th June 2009, subject to the eligible asset being installed by 31st December 2010. The special tax deduction is available on capital items such as motor vehicles, computer hardware, machinery and equipment, as well as for making capital improvements to existing machinery and equipment. To qualify for the 30% deduction, businesses with turnovers over \$2m will be able to claim the bonus deduction for assets costing \$10,000 or more (exclusive of GST).

#### Legal Costs

Review any legal costs that have been incurred. If the legal costs relate to regular business operations, eg debt collections, separate them from costs relating to capital items which are not claimable for income tax purposes.

#### Luxury Car Tax

The Luxury Car Tax is 33% and applies to the GST inclusive value in excess of \$57,180 (2008/09).

#### Deductions On Accruals Basis

**SUBJECT TO TAX RETURN BEING LODGED ON AN "ACCRUALS" BASIS**

#### Fringe Benefits Tax Payment (Accruals Basis)

If a Fringe Benefit Tax instalment is due on 21st July 2009, it can be accrued and claimed as a tax deduction in the year ending 30th June 2009.

#### Commissions Owing (Accruals Basis)

Where employees or another business are owed commission by your business for services rendered up to 30th June 2009, the accrued amount can be claimed as a tax deduction at 30th June 2009.

## End Of Year Tax Planning Checklist 2009 (cont.)

### Deductions On Accruals Basis (Cont.)

#### Interest (Accruals Basis)

Any accrued interest outstanding on a business loan that has not been paid at 30th June 2009 can be claimed as a tax deduction at 30th June 2009.

#### Salaries And Wages (Accruals Basis)

The accrued expense for the days that employees have worked, but not paid at 30th June 2009, can be claimed as a tax deduction at 30th June 2009.

#### Commercial Bills (Accruals Basis)

Where the term of a Commercial Bill expires beyond the 30th June 2009, the discount applicable to the period up to 30th June 2009 can be claimed as a tax deduction.

#### Rent (Accruals Basis)

If rent is in arrears, the part that is owed up to 30th June 2009 can be claimed as a tax deduction.

#### Investment Deductions

It is recommended that you have a meeting with your Professional Accountant prior to committing to a Managed Investment Scheme (MIS) investment.

### **Stock**

#### Stock On Hand

Review stocktake list as at 31st May. Determine whether to conduct "sales" prior to 30th June 2009. Conduct stocktake as at 30th June 2009. If you are conducting regular "rolling" stocktakes through the year, it may not be necessary to conduct a stocktake as at 30th June 2009. Stocktaking may not be necessary if you are a small business entity.

#### Value Of Stock

Stock can be valued at different individual methods for each item of stock: • Cost; • Sales Value; or • Lower of Market Value or Replacement Cost.

#### Obsolete Stock

Identify any obsolete stock and decide whether to clear or dump that stock.

### **Assets**

#### Fixed Asset

Determine if there are any benefits in scrapping any fixed assets to obtain the tax write off.

### **Employment Issues**

#### Payment Summaries

Payment summaries have to be prepared and forwarded to all employees by 14th July each year.

#### PAYG Withholding Tax

Annual report due 14<sup>th</sup> August.

#### Payroll Tax (if you are liable)

You have to prepare a reconciliation of total payroll for the year showing the total amount of payroll tax payable and then reconcile this with the remittances that you have forwarded on a monthly basis.

#### Work Cover

A Work Cover Declaration is due by 31st August certifying wages paid for year ending 30th June.

### **Superannuation Funds**

- Contributions to Superannuation Funds are taxed at 15% of the contribution.
- Earnings made in a Superannuation Fund are taxed at 15% paid by the superannuation fund.
- For people 60 years or over and who have started drawing a pension, payments from the superannuation fund are tax-free.
- Generally, moneys invested in Superannuation Funds cannot be accessed until 55 years of age.

### **Income Issues**

#### Deferring Assessable Income

With the reduction of personal income tax rates for residents in 2009/10, there may be benefits (if possible) in delaying the receipt of taxable income into 2009/10 when the lower taxation rates will apply.

#### Bad Debts Recovered (on an accruals basis)

If a debtor, who had been written off as a bad debt and claimed as a tax deduction for the amount of the bad debt, subsequently pays any part of the amount owing, you have to bring the amount paid to account as assessable income in the year of recovery.

#### Deferring Livestock And Produce Sales

Farmers can defer livestock and produce sales until after 30th June. However, if you are a farmer you need to assess whether you will suffer price reductions because of the decision to defer sales.

#### Income Splitting

Income splitting can be highly tax effective, especially if investments have been placed in the name of a lower income earner. This can be applicable where a spouse is not working and the income in the spouse's hands would therefore be taxed at a lower rate.

#### Interest Earned

Declare interest earned on bank accounts, loans, etc.

#### Employee Share Schemes

If you are a member of an employee share scheme you should ensure that any income that has been earned is included in your income tax return.

#### Qualifying Employee Share Schemes

The Government has announced in the Federal Budget on 12th May 2009, that it intends to change the rules for share schemes effective from 12th May, 2009, that employees who buy shares or options under Qualifying Employee Share Schemes will no longer be able to defer payment of tax on the discount that they had benefited from in the share buying transaction.

#### Government Grants

If your business has received a grant from a government department, it is most likely paid to you on the basis that it is taxable income and therefore you need to disclose in your tax return the receipt of the government grant. If you are lodging your income tax return on a cash basis, this highlights the desirability of ensuring that all of the government grant funds have been expended on tax-deductible items prior to 30th June.

## End Of Year Tax Planning Checklist 2009 (cont.)

### Companies

#### Franking Account

A company's dividend payments and franking profile should be reviewed before year-end to ensure sufficient franking credits are available.

#### Company Loans

The law requires that the loan to the shareholder is properly documented. If there is no security offered, the term of the loan should not exceed 7 years. If security is offered, the loan should not exceed 25 years. Interest rate to be charged during 2008/09 is a minimum of 9.45%. If loans have been made to shareholders that have not been supported by properly documented loan agreements, then the taxation office can treat those payments as being dividends that are assessable to the shareholder.

#### Personal Service Income

Taxation laws include measures that are designed to limit the deductions available to certain contractors, whether operating as a sole-trader or through a company, trust or partnership; these are known as the Personal Services Income (PSI) measures. A taxpayer who meets certain specified tests will be treated as carrying on a personal services business and will be able to claim a wider range of deductions. If you are operating a personal service business you need to be aware of the Australian Taxation Office's strict approach to income retention and income splitting.

#### Non-Commercial Losses

For a business to be commercial under the "non-commercial losses tests", the business needs to meet certain prescribed tests. If the tests are not met, any losses arising from the activities have to be carried forward and offset in a later year against future income from the same type of source.

### Capital Gains Tax Items

#### Matching Capital Losses And Capital Gains

Capital losses are not directly deductible. Capital losses have to be offset against any capital gains generated during that financial year.

#### 50% Capital Gains Tax Discount

You should check your eligibility for the general 50% capital gains tax discount for individuals. If you are a small business operator and are able to meet the \$6M net value asset or have turnover of less than \$2M, you might be entitled to further capital gains tax concessions.

#### "Wash Sales"

The Australian Taxation Office has issued a ruling that it says relates to "wash sales". This is a situation where shares in companies listed on the stock exchange are sold to crystallise the capital loss and then shortly thereafter the taxpayer, or an associate of the taxpayer, purchases shares in that corporation on the Australian Stock Exchange

### Personal Planning

#### Zone Allowance

Record the number of days that you spend in Zone A or B, especially if you live in Zone B but spend some time in Zone A during the year.

#### Personal Insurance Payments

Premiums for Sickness and Accident Cover are tax deductible. Payments can be made by the employer without incurring Fringe Benefits Tax.

#### Home-Office Expenses

If you use an area in your home, you can claim the expenses of a home-office.

#### Utilising Tax Free Threshold

Every adult taxpayer has a tax-free threshold of \$6,000. If a taxpayer is verging on losses, consideration should be given to the decision being made re valuation of stock, bringing forward or delay of sales etc., to utilise the tax-free threshold otherwise it will be lost forever.

#### Rebates / Offsets

There are a number of rebates available within the income tax legislation.

#### Work Related Expenses

Items such as travel, uniforms, laundry of clothes, subscriptions, union fees and self-education.

#### Dividends and Interest

The Australian Taxation Office matches information provided in tax returns with information it receives from external sources, such as public companies, banks, etc.

#### End of Year Tax Schemes

The Australian Taxation Office produces product rulings on various investment products that are marketed particularly around 30th June each year. If you wish to avoid confrontation with the tax office, then it is best to consider investing in products that have obtained a product ruling. These product rulings are not a guarantee or government endorsement on the likely success or profitability of the investment.

#### Salary Packaging

Salary packaging can also assist in the minimisation of income tax particularly in the areas of voluntary superannuation contributions and acquisition of assets that are not subject to fringe benefit tax such as supply of a motor vehicle. Your employer is required to report the value of fringe benefits on your payment summary and that may have an affect on other government payments to you.

#### Entitlement To Stimulus Payment

Entitlement to the Federal Government's incentive of a maximum of \$900 is available to taxpayers who have paid income tax in respect of the year ended 30th June 2008. The government has indicated that the incentive payment will only be paid to taxpayers who have lodged their tax return in respect of the year ended 30th June 2008, by 30th June 2009.

## End Of Financial Year Review

If you have any queries on any other items that have not been discussed in this newsletter, or you have general matters that you would like to discuss with us relative to your taxation affairs for the year ending 30th June 2009, please contact us so that a convenient time for a meeting can be arranged.

## Business Review 2008/09

Now is an ideal time to talk to us about a "Survival In Difficult Times" review for your business. Particularly relating to:-

- Cashflow Management
- Debtors
- Bank's/Lender's Review
- Business Costs
- Customer Review
- Exports
- Gross Profits Analysis
- Insurance
- Leadership
- Market
- Marketing
- Sales Targets And
- Calculations Of "What Ifs"
- Risk Management
- Sales Analysis
- Stock
- Succession Planning
- Suppliers
- Team Members
- Theft And Pilferage
- Wages To Turnover Analysis
- Wastage
- Work In Progress



Please contact us as soon as possible to make an appointment for a business review on your business to be conducted.

## *"Your financial solutions specialists"*

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We also provide a wide range of **FINANCIAL PLANNING** services to individuals and families.

Providing customised service, GTC Financial can meet all your needs from Business Start Up and Planning for Growth through to Exit Strategies and Retirement Planning.

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### An Important Message

*While every effort has been made to provide valuable, useful information in this publication, this firm and any related suppliers or associated companies accept no responsibility or any form of liability from reliance upon or use of its contents. Any suggestions should be considered carefully within your own particular circumstances, as they are intended as general information only.*



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