

Tax Planning – Client Newsletter 2020

General Year End Tax Planning Strategies

Business Income and Expenses

Subject to cash flow requirements, consider deferring income until after 30 June, especially if you expect lower income for 2020/21 compared to 2019/20.

Most businesses are taxed on income when it is invoiced. Some small businesses may only be taxed when income is received. Income from construction contracts is generally taxed when progress payments are invoiced or received.

Ensure that you have complied with the requirements to claim deductions in 2019/20:

- Bad debts must be written off in your accounts before 30 June.
- Employer and/or self-employed superannuation contributions must be paid to, and received by, the super fund before 30 June and must be within the contributions cap (\$25,000 for all individuals regardless of age).
- Depreciation can be claimed for assets first used, or installed ready for use, before 30 June.
- Small businesses (turnover less than \$10m), can claim expenses prepaid up to 12 months in advance – for larger businesses, this is generally limited to expenses below \$1,000.
- Wages paid to your spouse or family members must be reasonable for the work performed.

“The small business instant asset write-off extended to 30 June 2020 has been expanded to include businesses with a turnover of less than \$50m and applies to assets costing less than \$30,000”

Small businesses planning major purchases or replacement of capital equipment should contact us for advice. Careful timing of those transactions can result in substantial tax savings.

Scrap any obsolete item in the asset register before 30 June. Consider delaying sale of assets that will realise a profit on sale and bring forward any sales that will result in a loss.

Review valuations of trading stock in the lead up to 30 June. Best practice is generally to value stock at the lower of cost or market selling value.

These best practices should be revised if you expect a tax loss for 2019/20, or substantially higher income in 2020/21 compared to 2019/20.

Personal Income, Deductions and Tax Offsets

Subject to cash flow requirements, set term deposits to mature after 1 July, rather than before 30 June.

Consider realising capital losses if you have already realised capital gains on other assets during 2019/20. Conversely, consider realising capital gains if you have unrecouped capital losses, or you expect substantially higher income in 2020/21 compared to 2019/20.

If you expect lower income in 2020/21 due to retirement or any other reason, consider deferring income until after 1 July, when you will be in a lower tax bracket. If you are a primary producer and you expect a permanent reduction in income, consider withdrawing from the income averaging system.

Arrange for deductible donations to be grouped in the higher income year, if you expect substantially higher or lower income in 2020/21 compared to 2019/20. Make all donations in the name of the higher income earner.

Income Tax Changes for 2019/2019

Several tax changes apply in the 2019/20 income year. A brief summary is provided in this newsletter.

There may be some advantages in acting on some of these items before 30 June.

If you think any of these changes may affect you, please contact us for more details.



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Other Tax Planning Considerations

Contact us for advice if you have moved to or from Australia for an extended period. You may need to review your residency status for tax purposes. There are important tax consequences if you change tax residency.

Trustees of trusts should ensure that all necessary documentation is completed before 30 June, especially where you intend to stream capital gains or franked distributions to specific beneficiaries or have beneficiaries who aren't the default beneficiaries.

Family discretionary trusts may need to make a family trust election if the trust has unrecouped losses or has beneficiaries whose total franking credits for the year may exceed \$5,000.

Be sceptical of year-end tax shelter schemes. You should not enter a scheme without advice regarding both its tax consequences and commercial viability.

Single Touch Payroll

The Single Touch Payroll reporting framework is expanding from 1 July 2020 to include closely held payees. A closely held payee is one who is directly related to the entity from which they receive payments, for example:

- Family members of a family business;
- Directors or shareholders of a company;
- Beneficiaries of a trust.

Income Tax Changes – Small Businesses

Tax Rate

For the 2019/20 year eligibility for the reduced corporate tax rate of 27.5% remains unchanged and applies to base rate entity companies with an aggregated turnover of less than \$50m.

The small business income tax offset remains the same, which is 8% discount of the income tax payable on the business income received from a small business entity (other than a company) with aggregated turnover of less than \$5m, up to a maximum of \$1,000 a year.

Accelerated Depreciation Turnover less than \$10m

An immediate deduction is available for entities with an aggregated turnover of less than \$10m for each asset that cost less than the threshold that applied when the asset was first used or installed ready for use. Different thresholds apply:

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

The balance of the general small business pool is also immediately deducted if the balance is less than \$30,000 at 30 June.

The threshold reverts to \$1,000 from 1 July 2020.

Accelerated Depreciation Turnover from \$10m to \$50m

An immediate deduction is available for an asset costing less than \$30,000 acquired and first used or installed ready for use from 7.30pm (AEDT) on 2 April 2019 to 30 June 2020 for businesses with a turnover less than \$50m.

The threshold reverts to \$1,000 from 1 July 2020.

Record Keeping Tips:

The ATO website holds a great list of basic records that must be kept accessible (either printed or electronic) for five years.

This can be found at: <https://www.ato.gov.au/Non-profit/your-organisation/records,-reporting-and-paying-tax/record-keeping/>

Various apps can be used to store your records on the go. A great example of this is the ATO myDeductions app. This can be downloaded from the App Store.

Some clients like to use cloud storage systems such as Dropbox or OneDrive. These are also great tools to be able to access your records and files on the go.



Income Tax Changes – Individuals

Tax Rate

The income tax thresholds remain unchanged for the 2019/20 year.

Low and Middle Income Tax Offset

Australian resident individuals whose income does not exceed \$126,00 are entitled to the new low and middle income tax offset.

Medicare Levy Low-Income Thresholds

From 1 July 2019 the Medicare levy thresholds will be increased as follows:

- Threshold for singled is increase from \$21,980 to \$22,398;
- Threshold for families is increased from \$37,089 to \$37,794;
- Threshold for single seniors and pensioners is increased from \$34,758 to \$35,418;
- Threshold for seniors and pensioners is increased from \$48,385 to \$49,304.

For each dependent child the family income threshold increases by a further \$3,471 up from \$3,406.

Removal of CGT Main Residence Exemption for Foreign Residence

The Capital Gains Tax main residence exemption will be denied to foreign residents effective from 7.30pm (AEST) May 9, 2017. The transitional period for dwellings owned before May 9, 2017 can be sold on or before 30 June 2020 and continue to be eligible for the CGT exemption.

Taxation of Income for an Individual's Fame or Image

Be aware that legislation is currently in consultation which aims to, from the 1 July 2019, ensure that all remuneration (including payments and non-cash benefits) provided for the commercial exploitation of a person's fame or image will be included in the assessable income of that individual.

Superannuation Changes

Personal Superannuation Contributions

Individuals with a total superannuation balance of less than \$500,000 will be able to make catch-up superannuation contributions using their unused concessional contributions cap. The unused concessional contributions cap can be accessed on a rolling basis for five years.

Opt-in Insurance for members with less than \$6,000 balance.

From 1 October 2019 insurance within superannuation is to only be offered on an opt-in basis for accounts with balances of less than \$6,000 and for new accounts belonging to members under that age of 25 years.

Salary Sacrifice

Legislation has been enacted to prevent employers from using employee salary sacrificed amounts to reduce their minimum superannuation guarantee.

Super Guarantee Non-Compliance

Subject to the passage of legislation, from 24 May 2018 to 6 months after receiving royal assent, there will be an amnesty period to encourage employers to self-correct past super guarantee non-compliance without penalty.



Budgeting Tip

A good budgeting tip is to break up all your expenses for the year into weekly manageable amounts.

For example, you may pay \$800.00 on your car registration each year. Divide this figure by the 52 weeks of the year and you come to a weekly amount of \$15.40. Set this aside into a separate savings account and when it comes time to pay the registration, you will have this amount

If you think that you may touch this amount before you need to pay the bill, you may have to transfer these savings to an account separate to your current bank.

Capital Gains Tax

Small Business CGT Concessions

Be aware of the proposed additional basic condition for the small business CGT concessions if the CGT event involves certain rights or interests in relation of the income or capital of a partnership.

Fringe Benefits Tax

FBT Rate

The FBT rate for the year ending 31 March 2020 is 47%.

Fun Fact!

\$27.40 a day in misspending equates to \$10,000 lost a year.

Calculation:
 $\$10,000 / 365 \text{ days}$
 $= \$27.40 \text{ per day}$

Due Dates for 2020

January	
28th January 2020	Superannuation guarantee contributions lodgement due for October to December 2019 (Q2)
February	
21st February 2020	PAYG lodgement and payment due for January 2020
28th February 2020	Business Activity Statements lodgement and payment due for October to December 2019 (Q2)
March	
21st March 2020	PAYG lodgement and payment due for February 2020
April	
28th April 2020	Superannuation guarantee contributions lodgement due for January to March 2020 (Q3)
May	
21st May 2020	PAYG lodgement and payment due for April 2020
25th May 2020	Business Activity Statements lodgement and payment due for January to March 2020 (Q3)
June	
21st June 2020	PAYG lodgement and payment due for May 2020



Please contact us to discuss any of these items that may impact your tax position for the 2019/20 year.

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