Business Client Newsletter

Financial Year Ending 30 June 2020

It's been an extraordinary end to the 2020 financial year with many businesses being forced into hibernation due to COVID-19. The number one priority for most business owners right now is cash flow, so tax planning has never been more important.

As accountants, we believe our client brief includes helping you minimise your tax liability within the framework of the Australian taxation system.

The purpose of this newsletter is to highlight some end of year tax planning opportunities. When evaluating these strategies, you should always keep in mind that spending money for the pure purpose of gaining a tax deduction can be counter-productive if the expenditure is not necessary for the business or expected to create a net improvement in profitability. With all transactions, the business decision should be made first with taxation considerations a secondary influencing factor.

Tax Planning should be done on a regular basis throughout the year. However, given the current economic circumstances, these tips are especially relevant to consider just before the end of the financial year.

To maximise benefits for the current financial year, we suggest a preliminary calculation is prepared of your taxable income for the year ending 30 June 2020 to identify the size of your likely tax debt and establish if you have a tax 'problem'.

Tax planning also requires you to satisfy compliance requirements like making appropriate elections within certain deadlines and the preparation and maintenance of appropriate documentation (such as trust minutes).

The following list of tax planning opportunities is certainly not exhaustive and depending on your circumstances (including your turnover and whether you are on a cash or accruals method of accounting) some of these strategies may or may not be appropriate to your business.

If you would like to discuss your tax planning options, we urge you to contact us today to ensure any strategy you are planning can be implement before 30 June 2020

Pre-June 30 Tax Minimisation Strategies

To minimise your tax liability there are several general strategies to consider:

1. Covid-19 Payment Implications
2. Delay deriving assessable income
3. Pre-pay up to 13 months of next year's expenses
4. Bring forward deductible expenses or losses
5. Small Business Asset Write Off purchasers
6. Shift income to a taxpayer with a lower marginal tax rate
7. Negative Gearing on property or shares
8. Make payments that receive special tax treatment e.g. certain super contributions.

WARNING: The circumstances under which the above principles can be applied are limited by certain legislative conditions. For example, not all pre-payments are allowable tax deductions and some types of income can't be shifted to another taxpayer.

Every year, there are some basic tax planning concepts that every taxpayer should consider including:

1. COVID-19 RECOMMENDATIONS

Countless Australians have been affected by the COVID-19 pandemic. In response, the Australian Government has implemented a series of assistance measures for the purpose of helping those experiencing financial difficulty by providing unprecedented levels of stimulus payments to businesses. It is important however to understand the tax treatment of those incentives as detailed below:

Government incentive	**Tax treatment**
Cashflow boost	Not taxable
Jobkeeper payment	Taxable
Jobseeker payment	Taxable
Payroll tax refund	Taxable
Land tax discount	Taxable
Early release of superannuation	Not taxable
State government grants	Taxable
Liquor licence fee waiver	Taxable
50% apprentice wage subsidy	Taxable

Covid-19 Payment Deferrals

In the wake of COVID-19, most businesses will have negotiated or accepted offers to defer business expenses in one form or another. However, just because such expenses are deferred, does not necessarily mean that they have not been incurred in the 2020 year.

You will need to undertake a careful analysis to ensure that all eligible expenses (even those where payment terms have been deferred like rent) are identified and claimed as an allowable deduction this financial year.

You should also review your banking and finance arrangements to ensure deferred interest and other payments have been included as allowable deductions in this financial year.

JobKeeper payments:

Despite providing undeniable benefits, the JobKeeper scheme also presents risk. Cash flow risks can occur because businesses must ensure all eligible employees are paid a minimum $1,500 per fortnight to all nominated employees well before they receive their payment.

In addition, employers who apply for the scheme but fail to pay their eligible employees may face penalties up to $126,000 for individual employers, or $630,000 for corporations as a breach of the Fair Work Act.

The ATO is also closely monitoring businesses seeking to profit from the scheme. Remedies that are available include clawing back funds (with interest) which it deems to be improperly paid. They will also require monthly reports of current and projected sales as part of the compliance process with the JobKeeper scheme.

JobKeeper payments used to pay wages are also exempt from payroll tax in many States.

COVID-19 Employment Stimulus

Many businesses who pay wages would have received the Governments 'Cash Flow Boost'.

The Cash Flow boost is not taxable. If received in a company, it can represent unfranked profits so is ultimately taxable when paid to shareholders. However, it should not be taxable if received by a sole trader, partnership or trust where these payments end up in the hands of individuals.

2. DELAY DERIVING ASSESSABLE INCOME

If cash flow and business reality allow, consider deferring the derivation or receipt of income until after 30 June 2020.

- If on a cash basis, consider trying to defer the receipt of cash.
- If reporting income on an accrual's basis, defer the derivation of income by holding back invoices if possible until after 30 June.

Please note, not banking amounts received before June 30 until after June 30 does not qualify because the income is deemed to have been earned when the money is received or the goods or services are provided (depending on whether you are on a cash or accruals basis of accounting).

Business income is assessable in the year in which it was earned (derived). The Australian courts have held that income that is assessable on an accruals basis is derived when a recoverable debt is created such that the taxpayer is not obliged to take any further steps before becoming entitled to payment.

One exception to the above is where amounts are received in advance of goods or services being supplied in this instance income may not be assessable until the services are rendered. Consequently, a lower income can be reported.

- Cash Basis Income - Some income is properly taxable on a cash receipts basis rather than on an accruals basis (e.g. rental income or interest income in certain cases). You should examine whether income can be properly deferred in those cases.
- Lump Sum Amounts - Where a lump sum is (or has been) received close to financial year-end, taxpayers should be examining whether any of those amounts can be delayed or spread over future periods.

3. PREPAY NEXT YEAR'S EXPENSES

Consider bringing forward expenditure. Depending on cashflow, you may choose to bring costs forward into the 2020 year to reduce tax payable. This may include:

- repairs to equipment,
- stationery or marketing orders,
- insurance premiums,
- subscriptions and memberships,
- travel,
- advertising
- interest
- Rent

Expenses are only deductible when incurred, i.e. there must be a presently existing liability to pay the expense. Many accruals and provisions are not deductible as they represent an estimate of expenses and do not relate to a presently existing liability.

A deduction for prepaid expenses will generally be allowed where the payment is made before 30 June 2020 for services to be rendered within a 12-month period. While this strategy can be effective for businesses operating on a cash basis (not accruals basis), we never recommend you spend money on items you don't need. However, paying expenses in June that are due in July could save you some tax this financial year. Of course, this only works if you have sufficient cash flow.

4. BRING FORWARD DEDUCTIBLE EXPENSES OR LOSSES

Business should also consider:

- **Accounts Payable / (Creditors):** If you operate on an accruals basis and services have been provided to your business, ensure that you have an invoice dated 30 June 2020 or before, so you can take up the expense in you accounts for the year ended 30th June 2020

- **Employee Superannuation Contributions:** Ensure that Employee Superannuation Payments including the 9.5% Superannuation Guarantee Contributions for the June 2020 quarter are made before 24 June 2020 (that way they will be received by the Superannuation Fund before 30 June 2020 to ensure you can claim the payment as a tax deduction).

- **Owner Superannuation Contributions:** Ensure that the maximum of $25,000 Superannuation Contributions for each Business Owners, Directors and Associated Persons is made before 24 June 2020 (that way they will be received by the Superannuation Fund before 30 June 2020 to ensure you can claim the payment as a tax deduction).

- **Staff bonuses / director's fees**: You may be able to bring forward staff bonus or directors fees provisions if the policies are approved before year-end and are made unconditional.

- **Gifts and donations:** A gift of cash or property to an appropriate Deductible Gift Recipient may be deductible if made prior to 30 June 2020, which could be used to offset against taxable income.

- **Stock Valuation Options** - Prepare for a stock take on 30 June. Identify any obsolete or old stock and scrap it or write it down to its correct market value. Individual items of trading stock can be valued at cost, market value, or replacement value for tax purposes. The tax value may differ to the accounting value. The different valuations can make a significant difference.

- **Tax losses:** You may be able to offset prior year tax losses against taxable income. However, this can be subject to a number of carry forward loss rules, including the continuity of ownership test, the same business test, and the income injection test.

  Under the new legislation was passed on 1 March 2019 that will supplement the current 'same business test for losses with more flexible 'similar business test'. The similar business test will only be available for losses made in income years on or after 1 July 2015. This test allows a company and trusts to access losses where business not the same but is similar having regard to following:

  - extent to which the assets that are used in its current business to generate assessable income were also used in its former business to generate assessable income

  - extent to which the activities and operations from which its current business is generating assessable income were also the activities and operations from which its former business generated assessable income

  - extent to which any changes to the former business resulted from the development or commercialisation of assets, products, processes, services, or marketing or organisational methods of the former business. (Source: ATO)

- **Write-Off Bad Debts** – Review your debtors and if any are unlikely to be recovered, actually write them off as bad before 30 June. This will reduce your income tax and should generate a GST refund (for taxpayers registered for GST on a non-cash basis). Unless these debts are physically recorded as a Bad Debt in your system before 30th June 2020, a deduction will not be allowable in the current financial year.

- **Depreciation Claims** - A review of the depreciation schedule may give rise to a number of opportunities, including the ability to scrap and write off amounts, self-assessing effective lives, or allocating assets to a low value pool.

- **Obsolete Plant and Equipment** should be scrapped or decommissioned prior to 30 June 2020 to enable the book value to be claimed as a tax deduction.

- **Bring forward Asset Purchases** to before June 30 to take advantage of the new immediate write off for small business assets (costing less than $150,000). Note the special COVID19 asset measures discussed below.

- **Repairs and Maintenance Costs** – Where possible and cash flow allows, consider bringing these repairs forward to before June 30. If you don't understand the distinction between a repair and a capital improvement, please consult with us because some capital improvements may not be tax deductible in the current year and could be claimable over a number of years as depreciation.

- **Capital Gains or Losses** - If you have assets which you intend to sell (and make a capital gain) and you have unrealised Capital Losses then consideration should be given to disposing of the assets before 30 June 2020. This will let you offset the losses against the Taxable Capital Gain for the year.

- **Payments to Workers:** A new rule for the 2020 year means that a business can only claim a deduction for payments to workers (employees, contractors, directors etc) where the business has complied with PAYG withholding and reporting obligations. If payments are paid but not correctly reported to the ATO, the business will be denied deductions, even if the individual correctly includes the amount in their income tax return.

  This may mean some family businesses that may have paid wages or allowances to family members below the tax-free threshold will need to register as a withholder and provide a PAYG Summary, or process payments through Single Touch Payroll.

  Most businesses should already now be using Single Touch Payroll. This extends to all business (including small family business) from 1 July 2020. You should ensure that you have payroll software that has the ability to report to the ATO directly under the single touch payroll system.

5. SMALL BUSINESS INSTANT ASSET WRITE OFF

Outright deductions for the costs of assets acquired are available to small businesses.

The current scheme commenced in 2011, and has been expanded as part of the Government's COVID-19 initiative to encourage business spending in an effort to increase cash flow, stave off an economic recession, boost consumption and protect employment.

The instant asset write-off threshold has been increased from $30,000 to $150,000 and has expanded access to include businesses with an aggregated annual turnover of less than $500 million (up from $50 million). **This applies from 12 March 2020 until 31 December 2020**, for new or second-hand assets first used or installed ready for use in this timeframe.

Here is the history of the instant asset deductions and corresponding eligible aggregated turnover requirements (current as of April 2020):

Small (and Medium) Business Instant Asset Deduction Thresholds

atotaxrates.info 9 June 2020

From			Instant Asset Deduction Threshold	Business Turnover (Ceiling)	Financial year
1 July 2011	to	30 June 2012	$1,000	$2 million	2011-12
1 July 2012	to	30 June 2013	$6,500	$2 million	2012-13
1 July 2013	to	31 December 2013	$6,500	$2 million	2013-14
1 January 2014	to	30 June 2014	$1,000	$2 million	
1 July 2014	to	7.30pm AEST on 12 May 2015	$1,000	$2 million	2014-15
7.30pm AEST on 12 May 2015	to	30 June 2015	$20,000	$2 million	
1 July 2015	to	30 June 2016	$20,000	$2 million	2015-16
1 July 2016	to	30 June 2017	$20,000	$10 million	2016-17
1 July 2017	to	30 June 2018	$20,000	$10 million	2017-18
1 July 2018	to	28 January 2019	$20,000	$10 million	2018-19
29 January 2019	to	7.30pm (AEDT) on 2 April 2019	$25,000	$10 million	
7.30pm (AEDT) on 2 April 2019	to	30 June 2019	$30,000	$50 million	
1 July 2019	to	11 March 2020	$30,000	$50 million	2019-20
12 March 2020	to	30 June 2020	$150,000	$500 million	
1 July 2020	to	31 Dec 2020	$150,000	$500 million	2020-21
1 January 2021	to	(ongoing - unless amended)	$1,000	$10 million	2020-21

Items that small businesses can purchase under the new instant asset write-off scheme include:

- Motor vehicles;
- Computer equipment;
- Office furniture and facilities; and
- Solar systems for business premises.

The instant asset deduction is applicable on an asset-by-asset basis, and the specific deduction amount applicable will depend on the date of purchase (and the usual installed ready for use requirements). Assets which cost more than the applicable limit would need to be depreciated.

On face value the instant asset write off is a very appealing tax concession, however, the Tax Office have stated they will monitor usage to detect ‘rorts’ so once you lodge your tax return you might get a ‘please explain’ letter from the ATO asking for more details.

In addition, the Government is introducing an (alternative) accelerated depreciation for businesses with a turnover up to $500 million until 30 June 2021 to allow an additional 50% of the asset cost as a deduction in the year of purchase; or 57.5% as a small business using the simplified depreciation small business pool.

The instant asset provisions apply to new and second hand assets. The accelerated depreciation provisions apply only to new assets. Here’s a before and after comparison

Coronavirus Instant Asset & Accelerated Depreciation Changes 12 March 2020

Before and after comparisons

Instant Asset Deduction Claims					new and second hand assets
	Entity Type	Asset value	claim 2020	Claim ongoing	Eligible until
Before 12 March 2020	Small Business Entity	less than $30,000	100%	-	30 June 2020
From 12 March 2020	Small Business Entity	less than $150,000	100%	-	31 Dec 2020
Before 12 March 2020	Small Business Entity	$30,000 and over	Pool 15%	Pool 30%	30 June 2020
From 12 March 2020	Small Business Entity	$150,000 and over	Pool 15%	Pool 30%	31 Dec 2020
Before 12 March 2020	Turnover $10m to $50m	less than $30,000	100%	-	30 June 2020
From 12 March 2020	Turnover $10m to $500m	less than $150,000	100%	-	31 Dec 2020

Backing Business Investment - Accelerated Depreciation					new assets onl
	Entity Type		1st year claim	Claim ongoing	Eligible until
Before 12 March 2020	Turnover less than $500m	not using Simplified Depreciation	UCA rules	UCA rules	ongoing
From 12 March 2020	Turnover less than $500m	not using Simplified Depreciation	50% + UCA(1)	UCA rules	30 June 2021
Before 12 March 2020	Turnover less than $10m	using Simplified Depreciation	Pool 15%	Pool 30%	30 June 2021
From 12 March 2020	Small Business Entity	using Simplified Depreciation	57.5%	Pool 30%	30 June 2021

(1) the total claim in first year is 50% + depreciation on the remaining 50%

Exclusions and limits

If you purchase a car (a passenger vehicle, except a motor cycle or similar vehicle, designed to carry a load less than one tonne and fewer than nine passengers) for your business, the instant asset write-off is limited to the business portion of the **car limit of $57,581** for the 2019–20 income tax year **(59,136 from 1 July 2020)**.

For example, if you use your vehicle for 75% business use, the total you can claim under the instant asset write-off is 75% of $57,581, which equals $43,186.

You cannot claim the excess cost of the car under any other depreciation rules

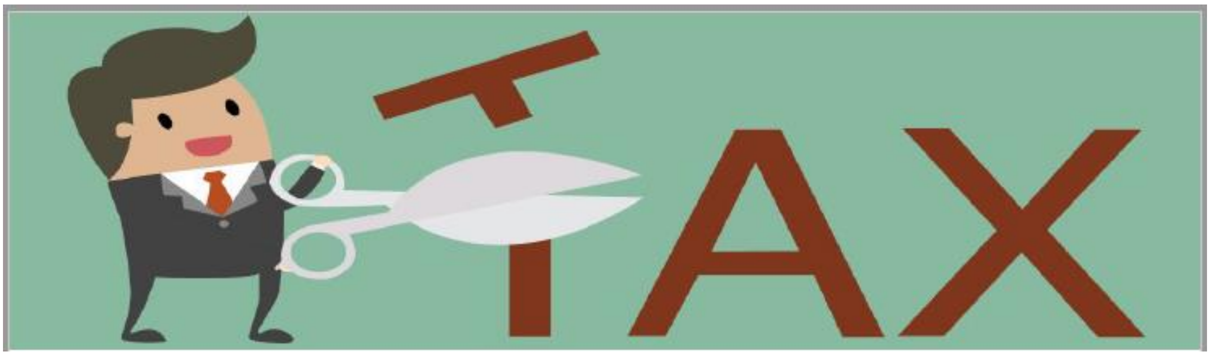
The impact of the above strategies is to either reduce or eliminate the amount of tax payable or delay the need to the pay the tax for at least another 12 months.

Conclusion

As spending money on additional equipment at this time may be problematic given the financial burden placed on businesses during COVID-19, any expenditure needs to be made with respect to the cashflow and tax effect of any purchase, particularly a large one.

Businesses in a position to invest in equipment may be able to take advantage of the write off and offset against any taxable gains they receive as part of the Government economic stimulus initiatives, and at the same time invest to improve business efficiency.

6. REDUCTION OF COMPANY TAX RATES



As illustrated in the table below, company tax rates are falling in Australia.

Income tax year	Turnover less than	Company tax rate
2018/2019 - 2019/2020	$50m	27.5%
2020/2021	$50m	26%
2021/2022 onwards	$50m	25%

Tax Rate

The Base Rate Entity company tax rate will drop from 27.5% in 2020 to 26% in the 2021 year.

With the reduction in company tax rates, the franking credit rules will change. Any dividends paid must be franked to the same tax rate that applies to the company in the year that the dividend is paid.

Accordingly, in 2021 year there may be some leakage of franking credits if tax was paid at 27.5%, but the rate next year becomes 26% so dividends are to be franked at 26%. The receipt of the Cashflow Boost is Non-Assessable Non-Exempt Income (ie non-taxable unfranked income) and will reduce the Franking credit trap.

A base rate entity is a company that both:

1) has an aggregated turnover less than the aggregated turnover threshold ($50 million for the 2018/19 & 2019/20 years)

2) 80% or less of their assessable income is base rate entity passive income – this replaces the requirement to be carrying on a business

All other companies are subject to the 30% tax rate, accordingly, companies receiving only passive investment income, or only receive distributions from a trust will pay tax at 30%.

7. RESEARCH & DEVELOPMENT (R&D) TAX INCENTIVE

Have you considered whether your company may be eligible for an additional tax concession for R & D expenditure undertaken?

Before deciding if you want to apply for the R&D Tax incentive, you should know that there are several eligibly requirements that must be met.

At a minimum, applicants must:

- be an incorporated company
- be conducting eligible core R&D activities. These are defined in the legislation as being experiments that are guided by hypotheses and conducted for the purpose of generating new knowledge
- have incurred eligible R&D expenditure or notional deductions of at least $20,000 (unless using a Research Service Provider or a Cooperative Research Centre).

Application open each year on 1st July and close on 30th April.

What does the R&D Tax Incentive offer?

A generous tax offset for eligible small and large businesses. It has two core components:

- 43.5% refundable tax offset for most small to medium companies with an annual turnover of less than $20 million per annum.
- 38.5% non-refundable tax offset to other eligible businesses.

  For companies whose eligible expenditure exceeds $100 million for an income year, the tax offset for amounts claimed above $100 million is calculated using the company tax rate. Additional benefits include:

- Option to gain certainty through an Advance Finding.
- Some overseas R&D activities are claimable (certain conditions apply).

The kind of costs that can be included in a claim for the R&D Tax Incentive include expenses such as:

- Salaries and super for project staff.
- Australian-based consultants, researches or contractors.
- Prototype build and production trial development.
- Company overheads
- Decline in value of depreciating assets used in R&D activities

8. SUPERANNUATION CONTRIBUTIONS

The deadline for employers to pay their superannuation guarantee contributions **for the quarter ended 30 June 2020 is 28 July 2020.**

However, if you want a tax deduction in the 2020 year the superannuation fund **MUST** receive the funds **before 30 June 2020**.

The Tax Office deems a contribution made by electronic transfer is not paid until the amount is actually credited to a super fund's bank account. As such, don't leave the payment to the last minute.

This effectively means that the last day to pay contributions using the funds transfer is Tuesday, the 23rd of June 2020.

Failure to make the required Superannuation Guarantee Contributions (SGC) by the deadline **of 28 July 2020** will mean you incur a non-deductible levy equal to the unpaid contributions together with a penalty.

Employer super contributions:

Superannuation Guarantee contributions are compulsory employer superannuation contributions paid to eligible employees. The Superannuation Guarantee rate remains at 9.5% for the 2019/2020 financial year (and also remained at 9.5% for the 2021 financial year).

The Superannuation Guarantee rates is detailed below:

Financial year	SG Rate
2019 / 2020	9.5%
2020 / 2021	9.5%
2021 / 2022	10.0%
2022 / 2023	10.5%
2023 / 2024	11.0%
2024 / 2025	11.5%
2025 / 2026	12.0%

Concessional Contribution Cap (Cc) Of $25,000 For Everyone

The $25,000 concessional (before-tax) contributions cap is the same for everyone, **regardless of your age**. Concessional Superannuation Contributions can be made in the following way:

- **Superannuation Guarantee (SG) contributions** are the compulsory contributions made by your employer into your super account on your behalf as part of your pay.

- **Award contributions** are specified in some Employment Awards or Agreements and are paid by your employer.

- **Additional pre-tax contributions made by your employer** are contributions above the compulsory amount required by the SG legislation or Employment Award.

- **Personal contributions which you claim a tax deduction on** were previously only available to people earning less than 10% of their income from an employer. From 1 July 2017, most people can now claim a deduction for personal contributions they make into their super account and can be made at any time during the year. The following age limits apply to these contributions:

    - **If you are aged under 65**, you are eligible to make personal contributions into your super account. If you are aged under 18 at the end of the financial year in which you made the contribution, you can only claim a deduction if you also earned income as an employee or a business operator during the year.

    - **If you are aged 65 to 74**, you must pass the work test (be 'gainfully employed' for at least 40 hours in 30 consecutive days during the same financial year).

    - **If you are aged 75 and over**, you are generally not permitted to make a contribution and claim a tax deduction. You can only claim a deduction for contributions you make before the 28th day of the month following the month in which you turned 75, plus you must still pass the work test.

- **Salary sacrifice contributions** are an agreement you make with your employer to pay part of your before-tax salary directly into your super account. The following age limits apply to these contributions:

    - **If you are aged under 65**, you are eligible to make salary sacrifice contributions into your super account.

    - **If you are aged 65 to 74**, you must pass the work test (be 'gainfully employed' for at least 40 hours in 30 consecutive days during the same financial year).

    - **If you are aged 75 and over**, you are not permitted to make salary sacrifice contributions.

Do not go over this limit or you will pay more tax!

The actual amount of tax will depend on your age and the financial year in which your concessional contributions were made, but is generally your marginal tax rate plus an interest charge.

The advantage of making the maximum tax-deductible superannuation contribution before 30 June 2020 is that superannuation contributions are taxed at 15% compared to company tax rates of between 27.5 and 30%.

SGC Employer Contribution payment timing

If you have previously unpaid super guarantee charge (SGC) from 1 July 1992 to 31 March 2018 please contact this office as now is your opportunity to correct past unpaid SG amounts.

Super guarantee amnesty

A superannuation guarantee amnesty was introduced on 6 March 2020.

Employers participating in the amnesty need to apply by 7 September 2020, to disclose, lodge and pay unpaid SG amounts for their employees. Employers can claim deductions and not incur administration charges or penalties during this amnesty.

It's important that you act on this opportunity now to get your obligations up to date. If you choose not to come forward during the amnesty, the costs will be significant. To remain eligible, you must declare and pay your SG shortfalls and interest charges. Payments made during the amnesty can be claimed as tax deductions, and payment plans can be arranged.

Applications for the amnesty close at 11.59pm on 7 September 2020. Only payments made before 11.59pm on 7 September 2020 will be tax deductible.

After the amnesty ends our ability to remit penalties applied as a result of an audit is limited by law. This means shortfalls will have a minimum penalty of 100% applied but can be as much as 200%.

It's also important to be aware that our audit program will continue during the amnesty period.

Additional superannuation contributions on downsizing a main residence

From 1 July 2018, a new contribution type called a ***"downsizer contribution"*** which allows members aged 65 years old or older who meet all the eligibility requirements make non-concessional super contributions up to $300,000 per individual into superannuation if it is sourced from the capital proceeds on the sale of the ownership interest in a CGT exempt Australian main residence held by that individual (or their spouse or former spouse) where the contract of sale was entered into on or after 1 July 2018.

Essentially, this measure allows an eligible individual an additional downsizing contribution cap of $300,000 which will be excluded from the broader non-concessional contributions cap and the restrictions on non-concessional contributions for individuals with a total superannuation balance above $1.6 million but it will count towards your transfer balance cap ($1.6 million).

Furthermore, the maximum downsizer contribution of $300,000 can be claimed by both the taxpayer and the spouse even where only one of those parties is on the title to the property. However, various conditions must be satisfied including:

1. Must be 65 years or older but no maximum age limit
2. contract of sale exchanged on or after 1 July 2018
3. you or your spouse has owned home for more than 10 years (generally calculated from the date of settlement of purchase to the date of settlement of sale)
4. the sale of the home are either exempt or partial exempt from capital gain tax under the main residence exemption
5. your home is in Australia and is not a caravan, houseboat or other mobile home
6. you have to submit the *Downsizer contribution into super form* either before or at the time of making contribution
7. you have not made the downsizer contribution previously from the sale of another home
8. the contribution must be made to a complying superannuation fund within 90 days of the change in ownership of the residence.

There is no requirement that the individual acquire a replacement main residence or satisfy the work test in order to be eligible for the downsizing contribution which can only be utilised once by each taxpayer.

9. Other Year End Tax Reminders

In addition to the tax planning opportunities, there are a number of reporting requirements detailed below:

(i) For Private Company - Div 7A Loans

Integrity rules exist to combat accessing funds from a company that have been taxed at the company tax rate, in a tax-preferred manner, such as by way of a loan, instead of paying a dividend. The rules exist due to the wide gap between the company tax rate of 30%/27.5% and the top personal tax rate of 47%.

Business owners who have borrowed funds from their company in prior years must ensure that the appropriate principal and interest loan repayments are made by 30 June 2020. Current year loans must be either paid back in full or have a loan agreement entered into before the due date of lodgement of the company return. Failure to comply risks having it counted as an unfranked dividend in the individual's tax return.

(ii) Trust Distribution Resolutions Due by June 30, 2020

The Australian Taxation Office (ATO) now require Trust Distribution Resolutions to be made prior to 30th June. If these resolutions are not made by this date the income of the trust will be subject to the highest marginal rate of tax, which could be significantly higher than the rate which would otherwise apply. Previously the ATO allowed up to 31 August to make the distribution resolution.

(iii) Motor Vehicle Log Books:

Ensure that you have kept an accurate and complete Motor Vehicle Log Book for at least a 12-week period.

If your existing Log Book is more than 5 years old, you will need to prepare a new one.

An alternative (with no log book needed) is to simply claim up to 5,000 business kilometres (based on a reasonable estimate) using the cents per km method. In 2020 financial rate remain at 68 cents per kilometre.

Please note, if you commence the log book prior to the 30 June 2020, the usage determined will still be appropriate for the whole of the FY 2020. As such, it is not too late to start preparing one for the current financial year.

(iv) Director Penalties

Company directors need to pay attention to companies' PAYG and SGC liabilities as there are strict penalties for directors of companies that fail to make outstanding PAYG and SGC payments.

(v) Taxable payments reporting system

Businesses in the following industries need to record and report to the Tax Office payments made to contractors for the year ended 30 June 2020:

- building and construction services
- cleaning services
- courier services
- road freight services
- information technology (IT) services
- security, investigation or surveillance services
- mixed services (a business that provides one or more of the services listed above)

The annual report is due to be lodged by 28 August 2020

(vi) Bonuses

Taxpayers should ensure that where a bonus has not been paid at year-end, they are able to demonstrate that they were definitely committed to the expense at that time. Typically this would require there to be a legal obligation. Critical indicators of this include the following:

- The bonus entitlement is included in contracts of employment.
- By year end the taxpayer had decided on the amount of the bonus, or an agreed formula or process to be followed to determine the amount.
- If there is an agreed formula or process, it is not subject to management discretion that can be exercised after year-end.

Where necessary, a binding board resolution has been made.

(vii) Capital Gains Tax

Some strategies to minimise Capital Gains Tax (CGT) include:

- Defer a disposal to a subsequent year.
- Defer a disposal to ensure that an asset has been held for at least 12 months, to potentially benefit from the 50% discount.
- Match gains and losses to avoid carrying forward a capital loss.
- Utilise the CGT small business and retirement concessions.

(viii) Repairs V. Improvements

An age-old question arises in relation to repairs: when is a repair a 'deductible repair' and when does it become an item of capital? The term 'repair' is described in Tax Ruling TR 97/23 as 'the remedying or making good of defects in, damage to, or deterioration of, property to be repaired (being defects, damage or deterioration in a mechanical and physical sense)'. The continued existence of the property is assumed.

In relation to repairs, the income/capital issue generally involves three areas:

- Initial repairs;
- The replacement of a subsidiary part or the replacement of the entire item; and
- Repair versus improvement (i.e. restoration of the item's former state or an improvement in its functionality).

Initial repairs, improvements and the replacement of the entire item are not deductible, but may qualify for a periodic write-off under the capital allowance provisions. In addition, the expenditure may form part of the cost base of an asset for capital gains tax purposes.

(ix) Bad Debts

The criteria for deductibility of bad debts are as follows:

- The debt must be bad.
- It must be written off during the year of income.
- The amount must have been either:
    - Previously brought to account as assessable income; or
    - In respect of money lent in the ordinary course of a money-lending business of the taxpayer.

In the context of tax planning, taxpayers should undertake a review of doubtful debts prior to year-end and assess which debts may be written off as bad. Whether a debt is bad will depend on an objective analysis of each case. As a practical guide, the taxpayer must show that appropriate steps to recover the debt have been taken.

It should also be noted that trusts with bad debts must satisfy the trust loss rules.

Companies that have undergone a change in underlying ownership during the year will need to pass the same business test to recoup bad debts.

(x) Non-Commercial Loss Rules

Clients operating small businesses who suffer a loss must be aware that the loss suffered may not be tax deductible if the business is deemed not to be carrying out a commercial business. The loss will not be able to be offset against other income when the small business does not derive business income (turnover) of in excess of $20,000.

(xi) Establish Corporate Beneficiaries

If a trust intends to distribute income to a corporate beneficiary, this company must be established before 30 June 2020. If you are intending to use a company beneficiary, please contact our office to discuss the suitability and the process to establish a new company.

(xii) Undrawn Beneficiary Entitlements Owing to Companies

Where Corporate Beneficiaries have been used in the past, consideration must be given to repaying monies to the company. This is to minimise the dividends that may be required to meet the repayment requirements under the Unpaid Present Entitlement (UPE) / Debit Loan Account (Division 7A) provisions of the Income Tax Assessment Act.

As the loan balances increase so do the minimum required repayments. In some cases, it may be necessary to declare a dividend in the current year to ensure the minimum loan repayments to the company are made.

It is important that these payments to the company are banked prior to 30 June 2020.

(xiii) Advise the Australian Taxation Office (ATO) of the Tax File Numbers of Beneficiaries

Where a beneficiary is to receive a distribution from a trust for the first time in the 2020 financial year, it is important that you advise the ATO of the Tax File Number of this beneficiary. This is particularly important in the case of new company beneficiaries and children who may have turned 18 years of age during the year. In addition, if a new Trust has been established during the year, you must provide the ATO with this information for all beneficiaries. These notices must be lodged with the ATO by 31 July 2020.

If this information is not reported to the ATO, Trust TFN Withholding Tax will be required to be paid to the ATO by 30 September 2021. This Trust TFN Withholding Tax will be available to offset against any tax payable by the beneficiary and, if it is greater than the tax payable by the beneficiary, a refund will be paid. As such, no extra tax is payable but there is a cashflow disadvantage if these details are not reported on time.

Where we are assisting you with the preparation of Distribution Resolutions, we will attend to these reporting requirements on your behalf. However, if you are preparing your own resolutions and you have new beneficiaries, please contact our office to arrange for the preparation of the necessary documents.

(xiv) GST - the audit of small business BAS/GST returns

It is extremely important that you review all transactions made in your books of account and confirm that GST has been claimed on all expenses and included in all sales invoices (where applicable) due to the Tax Office auditing more Small Businesses.

Clients should be aware that they must be in possession of a valid tax invoice for all transactions in excess of $75.00 (exclusive of GST) and that all invoices must be available to the Australian Taxation Office upon an audit taking place.

Furthermore, it is essential that the vendor has a properly drawn Tax Invoice showing the following details before you pay the account:

- Name of supplier;
- ABN of supplier;
- Amount of expense;
- GST amount (if applicable);
- Nature of the goods or services (noting the specific type of items purchased or expenditure incurred);
- Date of the tax invoice

Where a supplier's invoice is in excess of $1,000, your correct business name must appear on the suppliers invoice. The Australian Taxation Office has indicated that they will disallow GST Tax Credits when these conditions are not adhered to.

Please be aware that some suppliers, while having the ABN, are not registered for GST. In such cases, you would **NOT** be entitled to the input tax credits. A search on the following website www.abr.business.gov.au will show whether the supplier is registered for GST or not.

Please note that overseas transactions will generally not attract GST.

If you are uncertain of the GST treatment on any transaction or if you wish for this office to conduct a review of your transactions to determine if the transaction has been treated correctly, please contact this office.

(xv) ATO focusing on cash-only clients

There is nothing wrong or illegal about a business only accepting payment from its clients in cash. However, the ATO will take a particular interest in such businesses, fearing that they may not be disclosing all of their assessable income.

The ATO has recently announced that it is visiting businesses around Australia that appear to be trading as, or advertise as, cash only businesses as part its focus on the cash economy. While the ATO accepts that most businesses do the right thing, some get an advantage by not declaring all their income, and taking cash only makes this easier to do.

If you are in the cash economy please ensure that you are using appropriate point of sales technology and electronic record keeping to ensure the accuracy of your records.

(xvi) General Anti-Avoidance Provisions

We note that the tax legislation contains specific anti-avoidance provisions which target schemes entered into with the dominant purpose of tax avoidance. Accordingly, it is essential that you consider your specific circumstances before proceeding with any tax planning ideas to ensure these rules do not apply. While legally minimising tax should always be a consideration, it should not be the main driver in any transaction.

10. Fringe Benefit Tax (FBT) Rates From 1 April 2020

There have been no changes to the FBT rates applicable from 1 April 2019 to 31 March 2020. The rates are as follows:

- 2019/20 FBT rate is 47% (2020/21 rate will remain the same)
- 2019/20 Gross-up rates:
    - Type 1 benefits grossed-up rate is 2.0802 (2020/21 rate will remain the same)
    - Type 2 benefits grossed-up rate is 1.8868 (2020/21 rate will remain the same)

An employer is not required to lodge an FBT return where the fringe benefits taxable amount is nil, however, where an employer is registered for FBT purposes, we recommend they advise the ATO that they will not be lodging an FBT return by completing and lodging a "Fringe Benefits Tax – Notice of Non-Lodgement" form by the due date of 25 June 2020.

(i) Car Fringe Benefit Rules

A car fringe benefit arises when a car, normally held by an employer, is made available for the private use of an employee (or an associate). An arrangement to provide a car to an employee includes an arrangement between the employer and a third party (e.g., when a parent company makes a car available to an employee working for a related subsidiary).

A car is generally deemed to be available for private use where the employee has the use, custody or control of the car.

A vehicle is considered to be a "car" where it satisfies any of the following requirements:

1. it is a motor car, station wagon, panel van, utility truck or similar vehicle designed to carry a load of less than 1 tonne; and
2. it is designed to carry fewer than 9 passengers; but
3. does not include a motor cycle or similar vehicle.

The statutory percentages for car fringe benefits are as follows:

Annualised kilometres	Statutory Fraction	
	Agreements in existence before 7.30pm 10 May 2011	Agreements entered into from 7.30pm 10 May 2011
0 – 14,999	0.26	0.20
15,000 – 24,999	0.20	0.20
25,000 – 40,000	0.11	0.20
40,001+	0.07	0.20

11. End of Financial Year Procedures

Keeping your financial records in order is hugely important to the success of your business. Not only does it keep you up-to-date on your performance but legally speaking, you are required to have your records straight. It also makes the close of your financial year easy to execute by ensuring that all statements are in the right place. This is especially important for dealing with the Tax Office if audited.

The steps you should take when closing your books for the end of the 2020 financial year include:

(i) Bank Reconciliations

When completing your Bank Reconciliation for the end of the 2020 financial year, please ensure that you rule off the Bank Statement as at 30 June 2020 and reconcile to this point only.

Once your Bank Account has been reconciled, **print** the reconciliation statement and file it together with a copy of the bank statement. The bank reconciliation together with a copy of the bank statement will need to be provided to this firm with your year-end information.

You can now complete the rest of the Bank Reconciliation process to the end of the Bank Statement page as usual.

Credit cards, loans and similar arrangements should be treated in the same way as described above. Credit cards can be reconciled up to the closest statement date to 30 June 2020, if the statements do not provide a daily running balance.

(ii) Trade Debtors / Accounts Receivable

A full list of your Accounts Receivable should be printed and reviewed to ensure that all debtors have been correctly recorded and that all debtors are recoverable. Any debtors that are not recoverable should be written off to obtain a tax deduction and to claim back the GST credit paid to the Tax Office.

The entry to record the Bad Debt write off should be made and dated prior to 30 June 2020 with the narration of “written off uncollectible Receivable” and coded to the general ledger card “Bad Debts”.

(iii) Stocktaking

For those businesses that carry stock or work in progress please undertake a full stocktake as at 30 June 2020 showing items, quantity on hand and cost price. The cost price should reflect the amount you have paid at the time of acquisition including other direct importation, fright and transport costs and not the current replacement price.

This stock take should be documented and a copy provided to this office at the time your year-end financial statements are prepared.

(iv) Fixed Assets / Plant & Equipment

It is important to gain maximum deductibility in the form of depreciation and to do this a list of all Plant & Equipment purchased and Fixed Assets acquired since 1 July 2019 should be prepared and provided to this firm showing Acquisition Date, Cost and Description of each item.

It is recommended that you review your fixed assets accounts for the period 1 July 2019 to 30 June 2020 to ensure all assets have been entered correctly to enable depreciation to be calculated.

A list of all items sold during the year should also be prepared and made available to this firm

(v) Advance Receipts

If your business has received monies on account of future sales such as deposits on sales these monies should be coded to a liability account called “Customer Deposits” and not treated as sales until the service or the goods have been delivered.

(vi) Trade Creditors / Accounts Payable

A full list of your Accounts Payable should be printed and reviewed to ensure that all creditors have been taken up and recorded correctly including any GST component prior to 30 June 2020.

Any trade creditor more than 90 days outstanding should also be reviewed to ensure that invoices have not been entered twice or that the invoice entered has been paid and not removed from the account’s payable ledger.

(vii) Other Documentation Required

The following items are required at the time this firm prepares your year-end financials to take up the correct accounting entries and provide maximum deductibility.

- Contract on Purchase or use of Plant & Equipment, Motor Vehicle etc.;
- Hire Purchase Contracts;
- Lease Contracts or Chattel Mortgage; and
- Contracts of Sale of Plant & Equipment, Motor Vehicles etc.
- Bank loan statements

(viii) Bank Accounts Disclosure

To assist in the preparation of your entity’s Income Tax Return, we ask your assistance in providing this office with your main business bank account details so that we may update the tax office records. The ATO is heading into the electronic age and will only process GST and Income Tax refunds electronically.

(ix) PAYG Payment Summaries

2020 PAYG Withholding Summaries are required to be issued to employees by 14 July 2020 if you have not yet transitioned to Single Touch Payroll.

Before PAYG Payment Summaries can be prepare you will need to ensure you attend to the following for ALL employees of the business on your payroll software:

Step 1: Check Employee Details Are Complete and Accurate.

- Ensure employee declarations are up to date and filed with the tax office;
- Check that the employees Tax File Number is correct and recorded;
- Check that the employees, Full name, Residential address and date of birth is recorded; and
- Ensure all employees have a start and end dates if no longer employed by the business.

Step 2: Correctly Map Pay Items for ATO Purposes.

This step is straightforward as the ATO's requirements haven't changed with the introduction of STP, your pay items should already be set up correctly. However, if you have added new Pay Items recently, make sure they have been accurately categorised for ATO purposes.

Step 3: Advise Your Staff to Create a myGov Account.

It is essential your employees sign up and create their own myGov account. myGov is an Australian Government initiative and allows individuals to access their online government services, such as the ATO.

As soon as your company starts to report through STP, employees will need a myGov account to access their pay and tax information.

Step 4: Inform Staff Payment Summaries Will No Longer Be Issued.

Payment Summaries will no longer be a legal requirement and employers will not need to supply them to staff. This is the main reason why your staff need to have a myGov account.

With STP, as you are reporting directly to the ATO, once you have finalised the payroll at end of financial year, employees will have direct access to their income tax information through their myGov account.

If you still want to offer your staff a Payment Summary alternative, speak directly with your payroll software provider to find out if they are offering an alternative solution once Payment Summaries are eliminated.

WARNING: From 1 July 2021 all small business employers will need to be compliant with Single Touch Payroll.

Step 5: Finish any pay runs for the 2018-19 financial year.

Make sure all of your pay runs for the financial year have been posted. If you're needing pay runs reported within the 2019-20 financial year, you'll need to check that the Payment Date falls either on or before 30 June 2020.

Step 6a: Finalise Single Touch Payroll Data

Businesses using Single Touch Payroll or STP will need to finalise employee wages and submit the data to the Tax Office.

Step 6b: Prepare and finalise Payment Summaries

If you aren't filing pay runs with Single Touch Payroll, you'll need to prepare payment summaries for employees for this financial year. You'll also need to submit the Payment Summary Annual Report (PSAR) to the Tax Office or, if you have more than 99 employees, download the EMPDUPE file for manual lodgement.

(x) Year End Payroll Rollovers

Depending on the software you are using will depend on the procedure to close of the payroll year. **Before processing the first payroll for the 2021 financial year, you will need prepare PAYG Payments as discussed in item (ix) above.**

A staff member from our office will attend to the above rollover process for all clients when they prepare the 2020 PAYG Payment Summaries as part of our service offering.

(xi) Taxable Payments Annual Reporting (TPAR)

Businesses in the following industries need to record and report to the Tax Office payments made to contractors for the year ended 30 June 2020:

- building and construction services
- cleaning services
- courier services
- road freight services
- information technology (IT) services
- security, investigation or surveillance services
- mixed services (a business that provides one or more of the services listed above)

The annual report is due to be lodged by 28 August 2020

It is important that your accounting system captures all the key information to enable you to report this information to the Australian Taxation Office. Should you require assistance in relation to your reporting requirements please contact our office.

*****the information in this newsletter has been prepared by our staff as well as sourced from various professional publications and produced for the benefit of our clients.***