Business Client Newsletter

Financial Year Ending 30 June 2021

It's been an extraordinary end to the 2021 financial year with many businesses being forced into hibernation again due to COVID-19 Lockdown 4.0 in Victoria. 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.

Business planning is always challenging but planning with a pandemic in the background is incredibly difficult given the uncertainty and international travel restrictions. Border closures have impacted supply chains and some industries have slowed dramatically.

The purpose of this newsletter is to highlight some end of year tax planning opportunities but you need to be proactive and act quickly to take advantage of these strategies. We encourage you to schedule a meeting / telephone call with us as soon as possible to assess your tax planning options. 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.

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 implemented before 30 June 2021

Pre-June 30 Tax Minimisation Strategies

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

1. Delay deriving assessable income
2. Pre-pay up to 13 months of next year's expenses
3. Bring forward deductible expenses or losses
4. Make Concessional Super Contributions
5. Purchase asset that can be fully write off
6. Shift income to a taxpayer with a lower marginal tax rate
7. Negative Gearing on property or shares
8. Write off bad debts before 30 June
9. Prepare stock count and write off obsolete stock.

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. DELAY DERIVING ASSESSABLE INCOME

If cash flow and business reality allow, consider deferring the derivation or receipt of income until after 30 June 2021.

- 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 for incomplete work 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.

2. PREPAY NEXT YEAR'S EXPENSES

While paying bills on time is always a primary concern, most businesses are unaware of the tax savings that can result from bringing forward the payment of certain expenses

Consider bringing forward / pre-paying expenses prior to 30 June 2021 to reduce your tax payable.

A tax deduction can be brought forward into this financial year for expenses like:

- Wages, Bonuses, Commissions and Allowances
- Contractor Fees
- Travel and Accommodation Expenses
- Rent for July 2021 (and possibly future additional months)
- Insurances including Income Protection
- Printing, Stationery and Office Supplies
- Advertising including Directory Listings
- Utility Expenses - Telephone, Electricity & Power
- Motor Vehicle Expenses - Registration and Insurance
- Subscriptions and Memberships to Professional Associations and Trade Journals
- Home Office Expenses – desk, chair, computers etc.
- Donations to deductible gift recipient organisations
- If appropriate, consider prepaying any deductible investment loan interest. This could include interest payments on an investment loan for either an investment property or commercial property or an investment portfolio you hold.

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 2021 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.

3. 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 2021 or before, so you can take up the expense in you accounts for the year ended 30th June 2021
- **Employee Super Contributions:** Ensure that Employee Superannuation Payments including the 9.5% Superannuation Guarantee Contributions for the June 2021 quarter are made before 23 June 2021 (that way they will be received by the Superannuation Fund before 30 June 2021 to ensure you can claim the payment as a tax deduction).

  The Tax Office doesn't consider a contribution to be made until the amount is actually credited to a super fund's bank account so an electronic transfer to another bank account on June 30 is not necessarily considered paid.

  We strongly recommend you make the payment by 23 June 2021 to ensure the funds have been received. Don't risk the tax deductibility of what can often be a significant amount by leaving payment to the last minute.

- **Owner / Associated Persons Super Contributions:** Ensure that the maximum of $25,000 Superannuation Contributions for each Business Owners, Directors and Associated Persons is made before 23 June 2021 (that way they will be received by the Superannuation Fund before 30 June 2021 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 2021, 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 which 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 2021, 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 2021 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. Assets write off 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 2021. This will let you offset the losses against the Taxable Capital Gain for the year.

  Note: that the contract date (not the settlement date) is often the key sale date for capital gains tax purposes and when it comes to the sale of an asset that triggers a capital gain or capital loss, you need to consider your overall investment strategy when making the decision to sell.

  (i) If appropriate, consider deferring the sale of an asset with an expected capital gain (and applicable capital gains tax liability) until it has been held for 12 months or longer or to a future financial year.

  (ii) If appropriate, consider offsetting a crystalised capital gain with an existing capital loss (carried forward or otherwise) or bringing forward the sale of an asset currently sitting at a loss.

  Note that a capital loss can only be used to offset a capital gain.

- **Payments to Workers -** 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, including closely held payees) from 1 July 2021. You should ensure that you have payroll software that has the ability to report to the ATO directly under the single touch payroll system.

4. INSTANT ASSET WRITE OFF

The accelerated depreciation and instant asset write-off concession for small businesses has been extended and the eligibility criteria and thresholds for the instant asset write-off have changed.

Any business with an aggregated turnover of up to $500 million will now be able to claim a tax deduction for each asset purchased and first used or installed ready for use before 30 June 2021 for qualifying assets with a cost of up to $150,000.

In addition, until 30th June 2023, Temporary Full Expensing means the instant asset write-off thresholds don't apply as this allows an immediate deduction for:

(i) the business portion of the cost of new eligible depreciating assets for businesses with an aggregated turnover under $5 billion

(ii) the business portion of the cost of eligible second-hand goods for businesses with an aggregated turnover under $50 million

(iii) the balance of a small business pool at the end of each income year in this period for businesses with an aggregated turnover under $10 million.

In other words, for assets you purchased and first used (or have installed ready for use) for a taxable purpose from 7.30pm (AEDT) on 6 October 2020 to 30 June 2023, the instant asset write-off threshold does not apply. You can immediately deduct the business portion of the asset's cost under temporary full expensing.

Here are some key points to consider:

1) The asset must be used in the business for income-producing purposes and can be new or second hand;

2) To be eligible, the asset must be purchased by a business turning over less than $50m or $500 million after 12th March 2020 (see below table);

3) The amount must be under $150,000 (depending on date of purchase – see table below as it could be $30K or $25K or $20K) exclusive of GST;

4) If you borrow to purchase the asset, the asset is still eligible;

5) The asset must be installed and ready to use by the deadline (purchasing a car to be delivered in July 2021 won't qualify until the car is actually delivered);

6) To claim the write off on a motor vehicle you will need to have a valid log book and claim only that percentage of the cost as an immediate write off;

7) If your business has a small profit or even a loss, the write off will be of little or no benefit in the current year (losses are not refundable but can be carried forward to the next year)

8) Building structural improvements are not eligible for the instant write off

9) If your pool balance at the end of the year is less than $30,000 before applying any other depreciation deduction, the entire pool balance can be written off ($150,000 if purchased post 12th March 2020 and before 31st December 2020)

10) If your business is not a 'Small Business Entity' you will need to depreciate all assets purchased over $1,000. Any assets purchased for $1,000 or less can be written off immediately

The table below summarises the various thresholds:

Aggregated turnover	Date asset acquired (IAWO) or first held (FEDA)	Date asset first used or installed ready for use	Asset threshold (cost)
IAWO: Small business entity (SBE): **< $10m**	Before 7:30pm on 12 May 2015	Before 7:30pm on 12 May 2015	< $1,000
	Acquired from 7:30 pm on 12 May 2015 to 31 December 2020	From 7:30pm on 12 May 2015 to before 29 January 2019 29 January 2019 to before 7:30pm on 2 April 2019 From 7:30pm on 2 April 2019 to before 12 March 2020 12 March 2020 to 30 June 2021	< $20,000 < $25,000 < $30,000 < $150,000
	Acquired from 1 January 2021	Practically, not relevant until after 30 June 2022	< $1,000
IAWO: Medium sized business: **$10m to < $50m**	Acquired from 7:30 pm on 2 April 2019 to 31 December 2020	Acquired from 7:30 pm on 2 April 2019 to before 12 March 2020	< $30,000
		12 March 2020 to 30 June 2021	< $150,000
IAWO: Large business: **$50m to < $500m**	Acquired from 7:30 pm on 2 April 2019 to 31 December 2020	12 March 2020 to 30 June 2021	< $150,000
FEDA: Businesses **< $5b**	First held from 7:30pm on 6 October 2020 to 30 June ~~2022~~ 2023	By 30 June ~~2022~~ 2023	No limit

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

- Motor vehicles, utes;
- Computer equipment;
- Office furniture and facilities;
- Solar systems for business premises;
- Plant & Equipment;
- Trailers, forklifts, boom lifts;
- Trucks, vans,

Accelerated Depreciation Deductions

Newly acquired depreciating assets valued at more than $30,000 (or $150,000 post 12th March 2020) and not applied to the instant asset write off deduction can be added to the general business pool.

As part of the backing business incentive, an accelerated depreciation deduction of 57.5 percent for the business portion of the new depreciating asset applies for the cost of an asset on installation from 12th March 2020 to 30th June 2021 and existing depreciation rules apply (15 per cent for the first year and 30 per cent for subsequent years) to the balance of the asset's cost and for subsequent years. There is no limit to the cost of a qualifying depreciating asset eligible for this concession, but the asset must be new and not second hand.

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 $59,136** for the 2020–21 income tax year **(60,733 from 1 July 2021)**.

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 $59,136, which equals $44,352. You cannot claim the excess cost of the car under any other depreciation rules

Conclusion

On face value the instant asset write off is a very appealing tax concession, however, there are a number of conditions you need to satisfy. The instant asset deduction is applicable on an asset-by-asset basis and assets which cost more than the applicable limit would need to be depreciated.

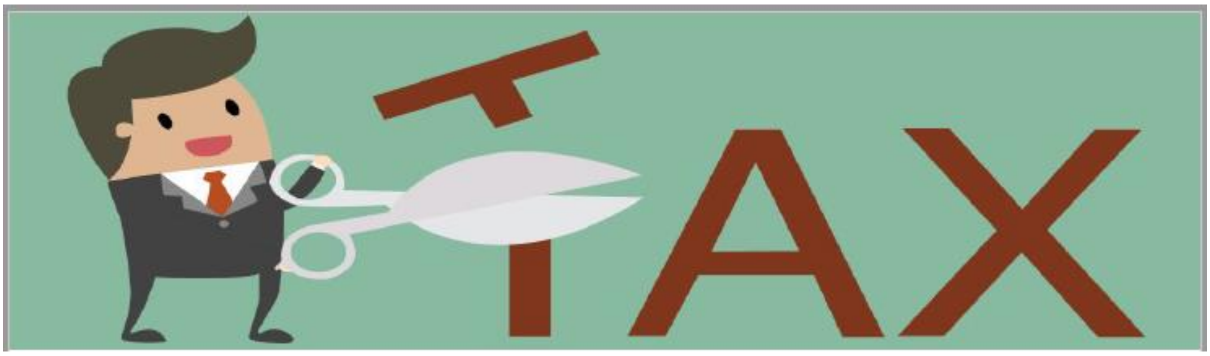
The Tax Office have stated they will monitor usage to detect 'rorts' so once you lodge your tax return you might get a 'please explain' letter from the ATO asking for more details.

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.

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.

5. REDUCTION OF COMPANY TAX RATES



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

		Tax rate	
Year	**Aggregated turnover threshold**	**Base rate entities < threshold**	**All other corporate entities**
2018–19 to 2019–20	$50m	27.5%	30.0%
2020–21	$50m	26.0%	30.0%
2021–22	$50m	25.0%	30.0%

Tax Rate

The Base Rate Entity company tax rate will drop from 27.5 to 26% in 2021 and then to 25% in the 2022 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% in 2020, but the rate is 26% in 2021 so dividends are to be franked at 26%.

A base rate entity is a company that both:

1) has an aggregated turnover less than the aggregated turnover threshold ($50 million)
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%.

6. 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).

Applications 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

7. SUPERANNUATION CONTRIBUTIONS

The deadline for employers to pay their superannuation guarantee contributions **for the quarter ended 30 June 2021 is 28 July 2021.**

However, if you want a tax deduction in the 2021 year the superannuation fund (or Small Business Superannuation Clearing House) **MUST** receive the funds **before 30 June 2021**.

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.

This effectively means that the last day to pay contributions using the funds transfer is Wednesday, the 23rd of June 2021. As such, don't leave the payment to the last minute.

Failure to make the required Superannuation Guarantee Contributions (SGC) by the deadline **of 28 July 2021** will mean you incur a non-deductible levy equal to the unpaid contributions together with a penalty.

Employer super contributions:

The Super Guarantee (SG) is a compulsory contribution all employers are required to make on behalf of each of their eligible employees. The contribution is paid directly to each employee's nominated super fund on their behalf and is set at a percentage of each employee's Ordinary Time Earnings (OTE).

From 1 July 2021, the Superannuation Guarantee (SG) rate will rise from 9.5% to 10%. It will then steadily increase each year until it reaches 12% on 1 July 2025.

The maximum super contribution base used to determine the maximum limit on any individual employee's earnings base for each quarter of 2020/21 is $57,090 and for 2021/22 is $58,920 per quarter. You do not have to provide the minimum support for the part of earnings above this limit.

The minimum SG rate currently legislated over the next 5 years are set out below:

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

Superannuation salary packaging arrangements will also need to be reviewed – employers should ensure that the calculations are correct and the SG rate increase flows through. We outline below some of the issues that employers should consider in the context of the increase to the SG obligations from 1 July 2021.

Employees remunerated under a superannuation-inclusive package

Where an employee is remunerated through a superannuation-inclusive package, in the absence of a remuneration review, their take-home cash payments will likely reduce from 1 July 2021.

As such, we recommend employers consider communicating the potential decrease with their employees as early as possible to avoid any queries or complaints arising.

Alternatively, where employers are considering implementing a pay increase to ensure consistency in take-home cash payments, this will need to be appropriately modelled, budgeted and communicated.

Employees receive SG contributions on top of their cash income

Similarly, employers will need to incorporate the increase in SG payable in budgeting for upcoming employee benefits, where an employee's SG is paid on top of their cash income. This budgeting will also need to factor in the overall cost impact where there are increases to underlying pay (for example, salary/wage increases), noting that this will result in a dual increase to both superannuation and cash income.

What do you need to do?

- Speak to your payroll software provider to ensure they are on top of this rate change, as some of the online software will update the rate change automatically in your payroll modules.

You will still need to check that the correct SG rate has been applied when processing your first pay run after 1 July 2021.

Please note, the new SG rate of 10% rate will be applicable on all wages processed on or after 1st July 2021 even if the wages relate to the period of pre-30 June 2021.

- Any individual agreements with an SCG rate of more than 9.5%, but less than 10% must be reviewed;
- Notify your employees, they may need to review their Salary Sacrifice or after-tax contributions arrangements;
- Remuneration Packages will need to be updated; this could mean a pay decrease for employees. For example; an employee earning $100,000.00 package with the current 9.5% superannuation contribution, they were receiving before tax $91,324.20, however, with the super rate increasing to 10%, the before-tax pay will be decreasing to $90,909.09;
- It is a good opportunity to do some housekeeping, and ensure your super obligations have been met (super payments and calculations).

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

The $25,000 concessional (before-tax) contributions cap is the same for everyone for 2021 FY ($27,500 for 2022 FY), **regardless of your age**.

It's important to keep track of the amount of your concessional (before-tax) contributions and when they are received by your super fund to avoid going over your cap. **If you are not sure how much of the concessional contributions cap you have used please contact this office.**

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

If you do exceed your concessional contributions cap you will have to pay extra 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 2021 is that superannuation contributions are taxed at between 15% and 30%, compared to personal tax rates of between 32.5% and 45% (plus 2% Medicare levy) for an individual taxpayer earning over $45,000.

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 (From 1st July 2022 the minimum age will be lowered from 65 to 60, subject to Royal Assent enabling the legislation) who meet all the eligibility requirements make non-concessional super contributions up to $300,000 per individual ($600,000 for couple) 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 (From 1st July 2022 the minimum age will be lowered from 65 to 60, subject to Royal Assent enabling the legislation)
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.

8. 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%/26% and the top personal tax rate of 47%.

Business owners, shareholder or a shareholder's associate 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 2021. 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 the loan potentially treated as a deemed unfranked dividend and taxed in the shareholder/shareholder's associate hands.

(ii) Trust Distribution Resolutions Due by June 30, 2021

The Australian Taxation Office (ATO) now require Trust Distribution Resolutions to be made prior to 30th June 2021. Please ensure that the Trustee Resolutions on how the income from the trust is distributed to the beneficiaries are prepared and signed before June 30, 2021 for all Discretionary ("Family") Trusts.

If a valid resolution hasn't been executed by this date, the default beneficiaries become entitled to the trust's income and are then subject to tax. Income derived but not distributed by the trust will mean the trust will be assessed at the highest marginal rate on this income.

(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 2021 financial rate per km changed to 72 cents per km.

Please note, if you commence the log book prior to the 30 June 2021, the usage determined will still be appropriate for the whole of the FY 2021. As such, it is not too late to start preparing one for the current financial year.

(Tip – the ATO has an App that can assist with keeping records such as business use logbooks

https://www.ato.gov.au/General/Online-services/ATO-app/myDeductions/?=Redirected_URL

(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 2021:

- 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 2021

(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) 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.

(Viii)   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.

(ix)   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.

(x)   Undrawn Beneficiary Entitlements Owing to Companies

When deciding to distribute income from a Trust to a Company during the 2021 financial year to benefit from a lower company tax rate, ensure you have considered Division 7A consequences.

Where a Trust distributes income to a Company, the Unpaid Present Entitlement (UPE) may result in a deemed dividend if the UPE from the previous year(s) is not repaid by the lodgement due date of the Trust's 2021 Income Tax Return or placed on a complying Division 7A loan agreement or Sub Trust Agreement.

Where Corporate Beneficiaries have been used in the past, consideration must also be given to repaying monies to the company 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 2021.

(xi) Establish Corporate Beneficiaries

If a trust intends to distribute income to a corporate beneficiary, this company must be established before 30 June 2021. 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) 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 2021 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 2021.

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.

(xiii) 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.

(xiv) SELF-MANAGED SUPERANNUATION

A Self-Managed Superannuation Fund (SMSF) can provide significant tax savings but they don't suit everyone. There are significant regulations surrounding the management and administration of SMSF's.

With the end of the financial year approaching, now is a good time to discuss the tax advantages of establishing your own SMSF.

It might be appropriate to establish a SMSF in conjunction with other tax planning opportunities. If you would like more information about self-managed superannuation funds we invite you to consult with us today.

(xv) 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.

(xvi) Single Touch Payroll

From 1st July 2021, Single Touch Payroll (STP) will become mandatory for all employers including small businesses (those with 19 or fewer staff) and businesses with closely held employees (e.g., directors of family companies, salary and wages for family employees of businesses). No further extensions will be granted.

Under the STP requirements employers must submit their Wages, PAYG Withholding and super information to the Tax Office when they process their payroll (be it weekly, fortnightly or monthly), rather than when they lodge their monthly or quarterly BAS return.

For employers with closely held employees, there are some concessions on how reporting is managed with the option to report one of three ways:

1) reporting actual payments in real time,
2) reporting actual payments quarterly or
3) reporting a reasonable estimate quarterly.

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

There have been no changes to the FBT rates applicable from 1 April 2020 to 31 March 2021. The rates are as follows:

- 2020/21 FBT rate is 47% (2021/22 rate will remain the same)
- 2020/21 Gross-up rates:
  - Type 1 benefits grossed-up rate is 2.0802 (2021/22 rate will remain the same)
  - Type 2 benefits grossed-up rate is 1.8868 (2021/22 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 2021.

(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

10. 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 2021 financial year include:

(i) Bank Reconciliations

When completing your Bank Reconciliation for the end of the 2021 financial year, please ensure that you rule off the Bank Statement as at 30 June 2021 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 2021, if the statements do not provide a daily running balance.

(ii) 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.

(iii) 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 2021 with the narration of "written off uncollectible Receivable" and coded to the general ledger card "Bad Debts".

(iv) Stocktaking

For those businesses that carry stock or work in progress please undertake a full stocktake as at 30 June 2021 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.

(v) 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 2020 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 2020 to 30 June 2021 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

(vi) 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.

(vii) 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 2021.

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 accounts payable ledger.

(viii) 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

(ix) PAYG Payment Summaries

The preparation and reconciliation of Employee PAYG Payment Summaries (formerly known as Group Certificates) are required to be issued to employees by 14 July 2021 if you have not yet transitioned to Single Touch Payroll (STP).

If you are reporting through STP, you are not required to supply your employees with payment summaries for amounts you have reported and finalised through STP. Employees will need a myGov account to access their pay and tax information.

Finalisation of PAYG Payment Summaries / STP Reporting:

Before PAYG Payment Summaries can be prepared / STP finalised 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, 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 the end of the 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, check directly with your payroll software provider to find out if they will be still offering Payment Summaries to be printed.

Step 5: Finish any pay runs for the 2020-21 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 2020-21 financial year, you'll need to check that the Payment Date falls either on or before 30 June 2021.

Step 6a: Finalise Single Touch Payroll Data

Businesses using 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 2022 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 2021 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 2021:

- 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 2021

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.

Thinking Further / Strategic Planning

Tax is the most significant burden on your business each year. Why not spend a bit of time each year coming up with strategies to help minimise tax and the impact it has on your business?

Falling behind in your tax obligations is one of the major causes of failure for Australian businesses. In an increasingly complex tax environment, keeping up to date with taxation regulations is an absolute must for businesses of any size or industry.

In conjunction with your year-end planning, it is also important to consider where you and/or your business are and where you would like to be going forward. Often making investments or adopting new strategies at the wrong time can actually cost your business thousands of dollars in lost future benefits, so understanding what your strategy is and why you are executing it is just as important.

There are many good reasons to restructure businesses, assets and ownership interests – from family succession and asset protection to streamlining business operations. Now is the time for both businesses and their owners to seriously consider whether a restructure ought be undertaken and quantify any savings likely to be realised by not delaying this exercise.

Given the complexity of some of the issues mentioned above and some other issues which may apply to your business it is important that you obtain expert tax advice in relation to your particular circumstances.

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You should consider any advice in this newsletter in light of your personal objectives, financial situation or needs before acting on it. It is recommended that you seek advice from a qualified professional relevant to your particular needs or interests.

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