



EDITORIAL

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Year end tax planning

As the end of the financial year approaches, it's important to focus on tax planning and tax issues relevant to your business. Doing so could make a significant difference to your tax bill and eventual net wealth.

Tax planning is typically about deferring income to a later financial year or accelerating deductions into the current year.

Some of the key tax issues to consider include.

Deferring Income

Here are some important points to consider about deferring income to a future financial year:

- You may be able to defer taxation applicable to income received before year-end for services not yet performed – eg. prepayments, annual service fees paid in advance etc.
- Most individuals will not be assessed on interest, dividends or rent until it is actually received (unless otherwise paid or credited on the taxpayer's behalf).
- Some general trading income may be deferred until the 2007/08 year, potentially delaying significant tax payments. For example, if your business operates on a cash/receipts basis, any income from clients billed and not yet paid will not be assessable until after year-end.

Maximising Deductions

Some initiatives to consider to accelerate deductions are:

- Review debtors and write off bad debts before year-end, but this must be in writing. If the debt is subsequently recovered, it can be shown as income at that time.
- Bring forward the outlay for deductible expenses. The company vehicle might need new tyres or a service. Also look to increase your levels of frequently-used business stationery etc.
- Value any stock on hand at the lower of cost, replacement value or market value, where appropriate.
- Where depreciable assets have been installed for use but are no longer expected to be used, consider 'mothballing' the assets to trigger a balancing adjustment event – eg. old business operating equipment etc.

Superannuation

Significant changes in superannuation over the past 12 months open new opportunities to build a bigger nest egg for retirement.

- Ensure that you pay all superannuation contributions before 30 June to maximise deductions and avoid potential exposure to the non-deductible superannuation surcharge.
- Consider using the superannuation contribution window, created by the recent changes to the superannuation legislation, to maximise tax effective superannuation contributions in the current year.

- Make sure you're aware of the reforms set out in the Federal Government's recent changes to the superannuation legislation. These reforms take further effect from 1 July 2007 on age-based limits and tax-free income for those over 60 years of age.
- A review of your insurances can result in the prepayment of your disability insurance for 12 months.

Blackhole Expenditure

Review your current financial year business expenditure to ensure that any deductible 'blackhole' expenditure is identified.

Blackhole expenditure is generally any expenditure that is not directly attributable to the day-to-day operations of your business. The types of expenditure to consider include: expenditure on a business plan, the establishment of business premises, research into likely markets or profitability of a business, capital investment in assets of the business, and liquidation and deregistration costs.

Capital Gains Tax (CGT)

Some strategies to minimise CGT are to:

- utilise the CGT small business and retirement concessions (up to \$500,000 tax-free);
- consider the availability of rollover relief for disposals to related parties;
- match gains and losses, where possible, to avoid carrying forward a capital loss – ie. it could be worthwhile realising some capital losses (sell underperforming shares) to offset any capital gains;
- defer an asset disposal to ensure the asset has been held for at least 12 months. This will potentially allow individuals and trusts to benefit from the 50% CGT discount; and
- defer a disposal to the subsequent income year where a gain is anticipated. Consider bringing forward a loss transaction if there are gains to offset.

Bonuses

Employers should ensure that where a bonus has not been paid at year-end, they are able to establish a clear binding commitment to the expense at the time. The key indicators of a definitive commitment are:

- the bonus entitlement is included in the contracts of employment; and
- a formula is in place which is not subject to management's discretion.

This way staff bonus expenditure can be claimed before being paid.

Other key issues

Other important matters relative to business tax planning and tax minimisation include:

- Where individuals incur losses from business activities, the non-commercial loss rules should be considered because, under the rules, such losses may not be eligible for offset against other assessable income during the year.
- Where a private company provides loans to shareholders, a careful review of the loan arrangement must be undertaken, as certain rules may deem the loan to be an unfranked dividend. It may be necessary to ensure appropriate loan agreements are in place and repayments are made.

- Review any similar loans by trusts where a corporate beneficiary has an unpaid present entitlement to trust income. These loans can also result in deemed dividends.

Where an individual applies personal efforts and skill in performing services to third parties through an interposed entity (eg. a company), the Personal Services Income rules may deem the individual to be assessable on the income generated. Careful consideration of such arrangements should be undertaken to avoid the application of the rules.

Ways to build wealth

You can also use tax deductions to create long-term wealth for yourself and your family.

There are a number of tax-effective products that provide a 100% tax deduction when you invest in them. Many of these products are now run by reputable, publicly-listed companies (rather than fly-by-night operators). Investments of this type can give you a tax deduction today and create an asset outside your business for later on.

Also prepaying interest on tax-deductible borrowings (such as investing in managed funds) can also be tax-effective with the right advice.

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This article has been submitted by Damian Knoblanche, Partner of The Peak Partnership Chartered Accountants.

P: 07 3360 9888

F: 07 3422 0999

E: damiank@peakpartnership.com.au