

YEAR END TAX PLANNING

Defer Income & Accelerate Deductions

- Consider the timing of income and expenditure by legitimately deferring receipt of income and bringing forward tax-deductible expenditure.

It may be possible to defer income by considering the timing of contracts, or when sales are actually made. Capital gains can also be deferred until the new financial year or capital losses can be crystallised prior to 30 June to offset against existing capital gains (see capital gains tax section below).

- Tax deductible expenditure can be brought forward (for example, expenditure on major repairs and maintenance that are not initial repairs, the replacement of an asset or improvement of an asset).
- Review fixed assets purchased during the year and ensure the correct effective life for depreciation is being used for depreciation claimed.
- Consider any fixed assets that should be scrapped before year end.

Capital Gains Tax

- Consider the 12 month rule when disposing of investments (assets must be owned for at least 12 months to gain access to the 50% capital gains tax discount concessions for individuals and 33% concession for superannuation funds).
- If capital gains have been made during the year, you may consider selling investments to realise any capital losses, which will offset the capital gains. Note: A sale for capital gains tax purposes is taken to occur when a contract for disposal is entered into (i.e. on exchange and not settlement).
- Beware of 'wash sale' arrangements when disposing and reacquiring capital gains tax assets. The Australian Taxation Office (ATO) has issued a taxation ruling on the application of Part IVA of the Income Tax Assessment Act 1936 (anti avoidance legislation) to 'wash sale' arrangements.
- 'Wash sale' arrangements occur when a taxpayer sells and purchases the same or substantially the same asset within a short period of the time of each other to apply a capital loss against a capital gain derived or expected to be derived. The ATO has warned that certain arrangements such as these are schemes to reduce income tax and may impose significant penalties. The ATO is currently releasing taxpayer alerts with respect to this matter.
- Shares must be owned for a minimum of 45 days (90 days for preference shares) for entitlement to franking credits (for large investors with \$5,000 or more in credits). Therefore, take this into consideration when deciding to balance capital losses against gains.

Bad Debts

- To claim for bad debts, the debt must be bad and declared written off prior to year end.
- The entity claiming the bad debts must satisfy the continuity of ownership test or the same business test.
- The debt must have previously been brought to account as income.

Prepayments

- Consider prepaying business or investment related expenses (note that some limitations may apply i.e. service period exceeding 12 months).
- The following types of payments are excluded from the prepayment rules and are deductible in the year incurred:
 - Prepaid expenditure less than \$1,000;
 - Prepayments required by an order of court of law; or
 - Expenditure for salary or wages.

You should ensure that when prepaying your interest that the financial institution charges the interest to the loan account rather than simply reducing the loan balance.

**WESTON
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PARTNERS MESSAGE

Technology is rapidly changing the world and our clients require total network peace of mind. Each of our clients has more important issues to deal with than their computer network. It is, however, a critical enabler to business and requires constant attention to ensure it's running predictably, optimally and securely.

Together with Foresite IT we provide a proactive and quality managed service solution which includes 24x7 network monitoring to ensure reliability and a stable computer environment.

Do these issues plague your business?

Untimely network failures?

Not knowing what will fail and when, and then having to wait for a technician to arrive?

Access problems?

Databases or files containing important client information ever lost, not accessible or corrupted?

Email failures?

Has your email server ever been down when you need to send an important message or document?

Ask how we can help.



Trading Stock

- Trading stock at year end can be valued at the lower of cost, market value or replacement value (a high \$A at year end can assist importers to value stock at lower than actual cost).
- Consider any old, obsolete or damaged stock that should be scrapped prior to 30 June or written down to market value.
- Conduct a stocktake on 30 June 2011.

Business Records

- Ensure your accounting software package allows you to print reports after year-end. If this is not possible, ensure all reports are printed on 30 June 2011.
- Ensure records for capital gains tax and expense substantiation are kept.

Private Company Loans to Shareholders or Their Associates and certain Trust Loans – Division 7A

- In order to avoid ATO penalties, ensure that these loans are documented or repaid by the earlier of the due date of the return or the date the return is actually lodged. For existing loans ensure the minimum requirements have been met.
- If the minimum requirements for these loans are not met, they may be deemed to be unfranked dividends.

Discretionary Trust Distribution

- Child beneficiaries who turn 18 years of age before 30 June 2011 can receive distributions without penalty rates applying (although they may have a reduced tax free threshold and HELP debt implications).
- Children under 18 years of age can receive \$3,333 tax free, provided they have no other income, by gaining access to the low income tax offset.
- In the 2011 Federal Budget, the government announced that it will remove the ability of minors (children under the age of 18) to access the low income tax offset to reduce tax payable on unearned income effective from 1 July 2011.

Streaming of Income from Trusts

- The Government recently released exposure draft legislation relating to the streaming of income from trusts (*Exposure draft: Tax Laws Amendment (2011 Measures No. 3) Bill 2011: trust income*).
- The draft legislation contains amendments with respect to the following:
 - Streaming of capital gains and net franked dividends to specific beneficiaries;
 - In relation to other income of the trust (including where franked dividends and capital gains have not been streamed), the beneficiaries (or trustee) be assessed on a proportionate basis, based on the share of trust income.
 - Other income may include, but is not limited to, foreign income, interest income and trading income.
 - If the draft legislation is introduced, trustees are not able to stream these other classes of income.
- It is proposed if the draft legislation is introduced, this will take effect from the income year ended 30 June 2011.
- Advice should be sought when making trust distributions for the year ended 30 June 2011.

Negative Gearing in Trusts

- Amendments to legislation are proposed so that franking credits can only be passed onto beneficiaries where trust income includes at least \$1 of net franked dividend income.
- Where costs are incurred by a trust holding investments with a return of franked dividends, these costs must be offset against the franked dividend income. If the net franked income is less than \$1, the franking credits cannot be passed onto beneficiaries. To this extent, the franking credits will be lost.
- Currently, franking credits can be passed onto a beneficiary where there is at least \$1 if net (taxable) income of the trust.

YEAR END HOT TIPS!

- Review debtors and write off bad debts;
- Conduct a stocktake;
- Review and scrap obsolete or damaged stock; Print stock valuation reports;
- Ensure super contributions are physically paid by 30 June;
- Review your asset register to identify any low cost and/or low value items that may be pooled to access accelerated rates of depreciation;
- Record motor vehicle odometer readings;

BEWARE OF YEAR END TAX SCHEMES

Be cautious in respect of year-end investments being marketed with "tax benefits". Even where the "tax benefits" are the subject of an Australian Taxation Office Product Ruling, the value of the underlying proposal needs to be sound.

The background of the promoters is also relevant to determine the degree of likelihood that they will comply with relevant tax rulings. Exercise caution.

HAVE YOU CONSIDERED A D-I-Y SUPER FUND

If you propose to set one up before 30 June 2011, why not consider a deductible contribution to a no exit/no entry fee ADF (Approved Deposit Fund offered by most banks). You can set up your D-I-Y fund after 30 June 2011 and save yourself one years accounting and audit fees!

PRIVATE COMPANIES – UNPAID PRESENT ENTITLEMENTS

- If you currently have a trust structure in place where a private company beneficiary is entitled to a distribution from the trust and the trust has not physically paid the distribution owing to the company, this may be caught under Division 7A of the income tax legislation.
- If this affects you, please contact our office.

Farm Management Deposits (FMD)

- FMD scheme allows primary producers with limited amount of non-primary production income (less than \$65,000) to claim a deduction for FMD's made before 30 June 2011.
- When the FMD is withdrawn the amount is included in assessable income in the repayment year (note eligibility criteria applies).
- The 2011 Federal Budget proposes that primary producers affected by natural disasters can access FMD's within 12 months of making the deposit while retaining tax concessional treatment under the scheme.

Motor Vehicle Claims

- If the log book method is used to claim motor vehicle deductions, ensure that you retain a current log book (for 5 years).
- Record closing odometer readings at 30 June 2011.
- Ensure all necessary documentation is maintained to support your claims.

Superannuation Planning – Employers and Employees

- Pay superannuation contributions at a rate of 9% of each eligible employee's earnings base for eligible employees to a complying superannuation fund.
- Ordinary time earnings should be used for the calculation of the 9% superannuation contribution.
- 'Ordinary time earnings' is generally an employee's earnings for their ordinary hours of work.
- Employers must make the superannuation contributions on or prior to 28th day of each month after the end of the quarter.
- Most employees are able to direct employer contributions to a complying superannuation fund of their choice.
- Businesses are required to offer their current and new employees a Superannuation Fund Choice and must provide their new employees with a 'Standard Choice Form' within 28 days of the commencement of their employment.
- If employees do not make a choice, employers must make contributions to a fund identified as a 'default' fund.

Superannuation Planning - Others

- In order to obtain an income tax deduction for superannuation contributions paid, the superannuation contribution must be received by the nominated superannuation fund on or prior to 30 June 2011.
- Concessional (deductible) superannuation contribution limits of \$25,000 apply for all taxpayers. Transitional rules apply for individuals aged 50 and over with a limit of \$50,000 for the years ended 2009/10, 2010/11 and 2011/12.
- The 2011 Federal Budget proposes that individuals aged over 50, with superannuation balances of less than \$500,000, will be able to make annual concessional contributions of up to \$50,000 (as opposed to an annual concessional contribution of \$25,000) from 1 July 2012. Conditions will apply.
- The limit for non concessional (undeducted) is \$150,000 for the 2010-2011 financial year.
- Individuals who make superannuation contributions who are aged between 65 and 74 are subject to the work test (the work test requires these taxpayers to be gainfully employed least 40 hours in a period of not more than thirty consecutive days during the financial year of making the contribution).
- Be wary of the 10% rule (substantially self employed rule) which applies to taxpayers who make personal contributions and earn amounts from employment.
- The definition of income for determining if a taxpayer has breached the 10% rule includes reportable fringe benefits and reportable superannuation contributions.

IMPORTANT DETAILS FOR COMPANIES

The Australian Securities and Investment Commission (ASIC) requires changes to company details be notified to them within 28 days of the date of change.

These notifiable changes include:

- Changes to company's registered office and/or principle place of business;
- Changes to office holders name and/or address;
- Changes to shareholders name and/or addresses; and
- Changes to share structure i.e. transfers, allotments and capital reductions.
- Late notification penalties will be assessed by ASIC. These can range between \$67 to \$278 for each late notification.
- Small foreign controlled companies have a requirement to be audited each year and lodge financial statements with ASIC unless a resolution is made by the directors to not have the company audited and ASIC is notified during the period starting 3 months before the start of the relevant financial year (i.e. 1 April 2011) and ending either 1 or 4 months after the end of the relevant financial year (i.e. after 30 June 11), depending on whether or not the company is part of a large group.
- Therefore, if you are a director of a small foreign controlled company and do not wish to have your company's 30 June 2011 financial statements audited or be required to lodge the financial statements with ASIC, you need to attend to the necessary resolution and notification with ASIC within the prescribed time frame.

- Reportable superannuation contributions includes the following:
 - personal deductible superannuation contributions made by a taxpayer;
 - contributions that an employee has salary sacrificed into their superannuation fund (over the compulsory 9% contribution to be made by employers);
 - contributions made where a taxpayer has influenced the amount or rate of super contributed by an employer.
- If you are still working and have reached preservation age, you may be eligible to commence non commutable transition to retirement income stream.

TRUSTEE(S) MUST DECIDE

- Trustees of discretionary Trusts must exercise their discretions to apply net income derived by the trust toward specified beneficiaries in accordance with the trust deed prior to the end of the income year.
- This discretion should be made in writing.

BE WARY OF REDRAW FACILITIES

- With banks and financial institutions promoting lines of credit and redraw facilities, a taxpayer can unwittingly deny themselves a tax deduction for interest payments on these facilities.
- Where a taxpayer “parks” surplus funds against a loan (and the loan was used to acquire an income producing asset) and later redraws against the facility for non income producing purposes, the ATO view is that the borrowings were repaid and new borrowings taken out (i.e. the redraw). This can result in the amount of deductible interest being substantially reduced.
- “Offset” accounts are much safer.

SELF MANAGED SUPER FUND LEVY

As a result of the 2011 Federal Budget it is proposed that the Self Managed Super Fund Levy will increase from \$150 to \$180 with effect from the 2010-2011 year.

DO WE HAVE YOUR CORRECT CONTACT DETAILS?

To assist our office in ensuring that correspondence is received by you in a timely manner, please ensure that changes to your contact details, including residential and postal addresses, phone, fax and email details are notified to our office as soon as possible after the changes have occurred.

Super Co-Contribution

If your gross income for the year ended 30 June 2011 is less than \$61,920 you may be eligible to have personal superannuation contributions matched by the Government.

- The annual maximum superannuation co-contribution that is currently being matched is \$1,000 if your gross income is less than \$31,920.
- The superannuation co-contribution system ceases to apply when your gross income is greater than \$61,920.
- Certain requirements must be met to be eligible to participate in the superannuation co-contribution system.
- The co-contribution system is available for the self-employed if 10% or more of their total income is earned from carrying on a business or eligible employment activities or both.

Substantiation

- Retain receipts and other like documentation in order to substantiate your claims for work related expenses.
- Note that expenses can only be claimed in the year in which they are incurred.

Business Premises / Home Office Expenses

- A proportion of expenses (e.g. rent and non home insurance) can be claimed as a deduction if carrying on a business from home and the area is separate and distinguished from private living areas. Claiming interest, home insurance and rates could have capital gains tax implications.
- A deduction for home office expenses is allowed for depreciation on office furniture and equipment, electricity and gas for the actual expense incurred or at a rate of 34c per hour. Diary records for a 4 week period that establishes a pattern of use for the entire year must be maintained annually and retained for a period of five years after the latter of the lodgement or lodgement due date of the income tax return.

Non Commercial Losses

- Losses from business activities are, in some cases, not allowed to be offset against other income (such as salary and wages).
- Taxpayers who have adjusted taxable income of greater than \$250,000 will have losses quarantined to the particular business activity under the non-commercial loss rules. Therefore there is a possibility that losses will never be utilised if the business does not make a profit. Relief may be granted in certain circumstances.
- For taxpayers with adjusted taxable income of \$250,000 or less, the losses can be offset if one of the following are met:
 - Assessable income from the business is \$20,000 or more;
 - The business produces a tax profit for 3 out of 5 years;
 - The business uses real property with a value of \$500,000 or more;
 - The business uses other assets to the value of at least \$100,000;
 - The business is a primary production or professional arts business and your assessable income not related to the activity is less than \$40,000; and
 - Under discretion by the Commissioner of Taxation.

Small Business Entity Concessions

The Small Business Entities have access to a wide range of concessions. An entity is considered to be a small business entity if:

- It carries on a business for all or part of the income year; and
- It satisfies the \$2 million aggregated turnover test.

The concessions that are available to small business entities include, but are not limited to the following:

- Some small business capital gains tax concessions
- Some concessions relating to GST
- Special rules for prepaid expenses
- FBT car parking exemption
- Immediate asset write-offs (currently <\$1,000, the 2011 Federal Budget proposes to increase this to \$5,000 from 2012-13.
- Simplified trading stock rules
- PAYG instalments based on GDP-adjusted notional tax
- It is proposed in the 2011 Federal Budget, that an immediate deduction will be available for small business, of up to \$5,000, for motor vehicles acquired from the 2012-13 income year. The remainder of the motor vehicle value will be pooled in the small business depreciation pool.

Small business entities with an aggregated turnover of less than \$75,000 may also be eligible for the entrepreneurs' tax offset. The 2011 Federal Budget proposes that this will be abolished from the 2012-13 year.

Employee Share Schemes

- Income tax legislation applies to the acquisition of a share or a right to acquire a share under an employee share scheme.
- If you propose to enter into an employee share scheme or, if you are currently in a scheme, dispose of these shares, we recommend you contact our office to seek advice regarding the tax consequences.

Capital Expenditure Write Off

Certain capital expenditure (usually non deductible) may be written off over a 5 year period. This expenditure includes cost in establishing a business, business restructuring, defending against a takeover and the costs of ceasing a business.

Other Tax Matters

Private Health Insurance Tax Offset

- An incentive is available to individuals for the cost of private health insurance, either as a tax offset, through reduced health insurance premiums or by receipt of a cash or cheque rebate from Medicare.
- To be eligible for the offset, certain conditions apply.

Medicare Levy Surcharge

- For singles with "income for surcharge purposes" of more than \$77,000 for the 2010-2011 year (\$80,000 for 2011-2012), or for a member of a couple with combined "income for surcharge purposes" of greater than \$154,000, that do not have the adequate private patient hospital cover for themselves and their dependants, an additional 1% Medicare Levy Surcharge may apply (this is in addition to the normal 1.5% Medicare Levy).
- Income for surcharge purposes consists of a taxpayer's taxable income, reportable fringe benefits, reportable superannuation contributions and total net investment losses.
- For families with dependent children, thresholds are increased.

Mature Age Worker Tax Offset

- A tax offset is available for matured aged workers aged 55 and over who participate in the workforce.
- Eligibility is based on age and your net income from working.

OUR SERVICES

Income Tax Services

- Income Tax Return Preparation
- Tax Planning and Advice
- Tax Audit Support
- Land Tax
- Superannuation
- Fringe Benefits
- Foreign Jurisdictions
- GST

Audit and Assurance Services

Many entities incorporated or not, are required by various statutes to appoint auditors to report on annual financial statements. In addition, entities which are not required by law to appoint auditors are often required to prepare audited financial statements to retain finance facilities from bankers or other lending institutions. We can provide audit and assurance services to our clients where required.

Accounting Services

- Preparation of financial and management accounts
- Bookkeeping and company secretarial services
- Accounting systems and technology

Business and Advisory Services

- Profitability and costing services
- Business plans and cash forecasts
- Start up feasibility studies
- Finance applications
- Acquisition - due diligence

Specialist Services

- Litigation support services
- Business valuations and appraisals
- Remuneration planning
- Mediation and dispute resolution

Medical expenses Tax Offset

A 20% tax offset is allowed for net medical expenses incurred greater than \$2,000 (increased from \$1,500) after deducting reimbursements paid (or payable by) a government, public authority, society or association.

Education Tax Refund

Eligible families and independent students are entitled receive the Education Tax Refund (ETR) to meet the cost of primary and secondary school education.

In order to be eligible, families and independent students must meet certain conditions.

Salary Sacrifice Arrangements

Tax benefits can be obtained by employees by making effective salary sacrifice arrangements (an effective salary sacrifice arrangement involves the employee agreeing to receive part of his/her salary or wages as benefits before they have earned the entitlement to receive the amounts as salary or wages).

1. Tax Saving on Fringe Benefits Tax (FBT) exempt and deductible items

- Employees are able to obtain tax savings by salary sacrificing the purchase of certain FBT exempt items including electronic diaries, mobile phones used primarily for use in the employee’s employment, calculators, briefcases, tools of trade, computer software used in the employee’s employment and notebook, laptop or portable computer (does not apply to any other computer). The purchase or reimbursement of each item is limited to one per year per employee provided it is primarily for use in the employee’s employment.
- Savings obtained by salary sacrificing the cost of FBT exempt items include:
 - By purchasing the item from gross wages this will effectively save income tax on the wages used to purchase the item.
 - GST is avoided on the purchase price as (assuming the employer is GST registered) the employer is able to claim a GST input tax credit for any GST incurred (therefore, the salary sacrifice amount need only be for the GST exclusive price of the item).
 - Employers are not disadvantaged as there is no FBT cost and the cost of the benefit is normally income tax deductible.
 - Benefits can also be obtained if employees salary package items that are otherwise deductible to an employee.
 - The advantage here is the employer can claim an input tax credit on the benefit and no FBT is payable. If the employee incurred the expenditure GST would have been payable by the employee (examples of these types of expenditure include subscriptions, conference costs, etc).

2. Tax Saving on Superannuation Contributions

- If before-tax salary is sacrificed into superannuation, employee’s benefit as this income is taxed at 15% in the superannuation fund instead of at marginal rates of tax.
- Limits regarding amounts that can be contributed into superannuation funds without incurring excess contributions tax do apply (refer to “Superannuation Planning – Others” section above).

2011 and Later Income Year Tax Rates

Taxable Income	Tax Payable
Up to \$6,000	Nil
\$6,001 to \$37,000	15% of excess over \$6,000
\$37,001 to \$80,000	\$4,650 + 30% of excess over \$37,000
\$80,001 to \$180,000	\$17,550 + 37% of excess over \$80,000
\$180,001 +	\$54,550 + 45% of excess over \$180,000

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