ASPIRE WEALTH GROUP

BUILDING YOUR BUSINESS & PLANNING YOUR FUTURE

2017 YEAR END TAX PLANNING GUIDE

The end of the 2017 financial year is fast approaching and to legally reduce your tax you need to take action before 30 June.

To assist you we have put together a list of strategies to consider and note:

- To maximise benefits for the current year, it is usually helpful to prepare a preliminary calculation of your taxable income for the year to date, so we can establish if you have a tax problem and the size of the tax debt.
- Review all deductible expenses and assessable income in the latest available figures (or prior year's figures if current figures are not available) to determine the possibility of pre-payment, deferral or other action.

This following list is not an exhaustive list of strategies and terms and conditions may apply to some of these tactics, depending on your circumstances. If you would like to discuss your tax planning options we invite you to contact us today and most importantly, don't leave it until the last minute as some of these concepts need time to implement.

TAX MINIMISATION STRATEGIES

The general strategy options for most taxpayers looking to minimise their taxation liability for the current financial year include:

1. Delay deriving assessable income.
2. Bring forward deductible expenses or losses.
3. Pre-pay (up to 13 months) next year's expenses.
4. Shift income to a taxpayer with a lower marginal tax rate.
5. Negative gearing strategies.
6. Make payments that receive special tax treatment e.g. certain superannuation contributions, some small business expenses).

Warning! The circumstances under which the above principles can be applied are limited by certain legislation. For example, not all pre-payments are tax deductible and some types of income cannot be shifted.

THE BENEFITS

By implementing these strategies, you can either permanently reduce, eliminate or defer the amount of tax payable. You may derive maximum benefits from these tax minimisation strategies if your taxable income for the year ended 30 June 2017 will be significantly higher than the year ended 30 June 2018. This could happen if:

- you have a 'one-off' capital gain or other irregular income amount in 2016/2017.
- you will not be working or earning as much income next financial year (2017/18).

A reduced taxable income can also help qualify for Government benefits which are means tested (e.g. family allowance, child day care fee relief etc.)

STRATEGIES TO CONSIDER

1. Defer the Derivation of Income

This strategy will obviously be subject to the business having sufficient cash flow.

a) Defer the Timing of Income until post June 30

Businesses that operate on an accruals basis (i.e. income is recognised when an invoice is raised), can delay raising invoices until after June 30 and thereby delay deriving assessable income until the new 2017/18 financial year begins.

Another deferral opportunity is to delay raising invoices for Work in Progress (WIP) until after June 30 so the income falls into the next financial year.

If you operate on a cash basis, where possible, defer the receipt of the income until after June 30, 2017 (e.g. set term deposits to mature after June 30 rather than before 30 June).

***Tax Tip**: Companies with a turnover of between $10 million and $25 million may want to defer the recognition of income to the 2017/2018 financial year to take advantage of the lower company tax rate of 27.5% (30% in 2016/2017).*

2. Bringing Forward Deductible Expenses or Losses

To qualify for deductions in the 2016/17 financial year, taxpayers may bring forward expenses (i.e. incur the expenses before 30 June 2017). Small businesses and individual non-business taxpayers may prepay expenses up to 12 months ahead (i.e. pay tax deductible expenses relating to the 2017/18 financial year before June 30, 2017). This should only be done provided a commercial basis exists for doing so and cash flow permits.

a) Superannuation Contributions (In addition, some individuals may be entitled to a Government Co-Contribution if they make a non-concessional contribution).

b) Capital Gains/Losses – look at the timing of sale transactions.

c) Prepayments – in certain circumstances expenses paid for before they are provided will be tax deductible. For example:

- Short term consumables such as office supplies and stationery;
- Unpaid workers' compensation insurance premium instalments;
- Travel and advertising.

d) Superannuation guarantee payments (only due in July).

e) Bonuses and Directors' Fees that are confirmed and committed to by June 30 (as evidenced in Board minutes), may be deductible in 2017, even if these fees are paid after June 30.

f) Accounts payable - If services have been provided to you ensure that you have an invoice dated before July 1, 2017.

INDIVIDUALS should also consider:

- Investment property expenses such as insurance, rates, repairs and maintenance and strata fees;
- The Budget Repair Levy is due to end on June 30, 2017 and it is a 2% levy on that part of an individual's taxable income that exceeds $180,000. As such, high-income individuals that are able to defer the derivation of their income to the 2018 tax year can potentially avoid paying an extra 2% 'tax'.
- Travel expenses to and from your residential investment property to inspect, maintain or collect rent will no longer be tax deductible after June 30, 2017. A trip to inspect your property planned for July 2017 should be brought forward to before June 30, 2017 to get a tax deduction.
- Subscriptions to professional associations and trade journals;
- Interest on investment loans (e.g. for share portfolios and investment properties);
- Income protection insurance; or
- Business travel expenses (e.g. airfares and accommodation) even if the trip will take place in the 2017/2018 financial year.

SMALL BUSINESSES with a turnover of less than $10 Million should also consider these ideas for the current 2016/2017 financial year:

- The Immediate Write-Off for most individual small business assets (new and second hand) costing less than $20,000 that are bought and used or installed ready for use in the business in the 2017 financial year.

- Simplified Depreciation Rules - an immediate tax deduction of the balance of the Depreciation pool is allowed if the balance is less than $20,000 over this period.

- Simplified Trading Stock Rules (e.g. you can avoid an end of year stocktake if the value of the stock has changed by less than $5,000 - some basis must exist to regard stock to be valued less than $5,000). For tax purposes, a lower closing value for trading stock will generally result in a lower taxable income for that year. You can value the amount of trading stock on hand at June 30 as the lower of cost, market value or replacement value.

- Writing off Obsolete Stock plus Plant & Equipment, bad debt write-offs, paying the Compulsory Employee Superannuation payments by 30 June (that are not due until July 28) and bringing forward repairs and maintenance costs to pre-June 30.

- Start Up Business Costs - If you started a small business this year you could be entitled to an immediate deduction for start-up costs (e.g. legal and accounting advice) incurred in the 2017 income tax year.

SMALL BUSINESS CGT CONCESSIONS

Claiming small business Capital Gains Tax (CGT) concessions is not simple. In general**,** if you are selling your business and you have an aggregated turnover of less than $2 million or the value of your net CGT assets is $6 million or less, you may qualify for the small business CGT concessions.

Depending on your circumstances (e.g. you might be thinking of selling your business, but are unsure of when to do so for tax purposes), if your business is expanding rapidly (e.g. you exceed the $2 million turnover test) and you may be at risk of also breaching the $6 million net asset value test, you may consider selling your business before breaching these thresholds so that you can qualify for the small business CGT concessions.

Examples of the concessions are:

- 15 year exemption (no tax payable);
- 50% active asset reduction (in addition to the 50% CGT general discount);

- Retirement exemption (up to $500,000 per person tax free); and
- Active asset roll-over (minimum 2 years' tax deferral).

You may apply all the concessions you are entitled to and potentially pay no tax on the capital gain made on the sale of your business. These concessions are very useful when applied correctly to the sale of your business. However, because the requirements to qualify for these concessions are complicated, we urge you to talk to us today regarding your eligibility for these concessions. In addition, when starting a business, we always recommend you 'start with the end in mind' and that includes the right business structure that takes into consideration these CGT concessions that apply on sale of the business.

IF YOU RUN A BUSINESS OR EARN YOUR INCOME THROUGH A COMPANY OR TRUST

- Employer Compulsory Superannuation Obligations - The deadline for employers to pay superannuation guarantee contributions for the 2016/17 financial year is the July 28, 2017. However, if you want a tax deduction in the 2016/17 year the super fund must physically receive the funds by June 30, 2017. That means the contribution must appear as a credit in the superannuation fund's bank account/statement on or before June 30.
- The rules regarding trustee distribution resolutions have changed and trustees must make the resolution and have evidence of this by June 30, 2017 at the latest otherwise the ATO will deem that no resolution has been made. Previously the ATO allowed up to August 31 to make the distribution resolution.
- The ATO must be notified by July 31, 2017 of any new beneficiary Tax File numbers
- Do you have a debit loan account in your business? Will the interest be tax deductible? Will your drawings be considered a deemed dividend? Have you paid the annual minimum payment required for your Div7A loan?
- Preparation of Stock Count Working Papers.
- Preparation and reconciliation of Employee PAYG Payment Summaries (Group Certificates).

From 1 July 2017:

The Compulsory Super Guarantee rate stays at 9.50% for the 2017/2018 year up to a new maximum superannuation contribution base of $52,760 per quarter.

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OTHER YEAR END ISSUES CHECKLIST

In addition to the above, the following obligations in relation to the end of the financial year should be considered:

If you use a car to produce your income you may need to:

1. Record Your Motor Vehicle Odometer readings at June 30.

2. Prepare a 13-week log book if your existing log book is older than 5 years.

If you have started an account based pension

Ensure that you have withdrawn the annual minimum required.

If you contribute to superannuation

- The maximum tax-deductible contribution for most eligible taxpayers is $30,000. However, the cap increased to $35,000 on 1 July 2014 for individuals aged 49 or more on 30 June 2015. From 1 July 2017, this reduces to $25,000 for all ages

- Taxpayers who receive “income” of $300,000 or more in 2016/2017 will have their tax-deductible superannuation contributions taxed at 30% rather than 15%. For this purpose, ‘Income’ is not defined as your Taxable Income, instead it is a special definition similar to that used for the Medicare Levy Surcharge. From 1 July 2017, this threshold reduces to $250,000.

If you will be turning 60 years of age or more at some time in 2017/2018

- You may be eligible to commence a tax-free ‘Transition to Retirement’ (TTR) Pension without stopping work. For this reason, you may wish to have an effective pension start date of July 1, 2017. If so, you need to tell your Superfund before 30 June 2017. Amounts withdrawn after your 60th birthday could be tax free. However, from July 1, 2017 the investment earnings on the amount in your superannuation TTR account will no longer be tax free.

- Superannuants who are aged 55 to 59 may also be eligible to commence a TTR but may pay tax on some of the superannuation pension received.

Non-Concessional Super Contributions

Depending on your personal circumstances (including how much Super you have at June 30, 2017), June 30, 2017 may be your final chance to make a non-concessional contribution.

Superannuation Pension Cap from 1 July 2017

If your Pension exceeds $1.6 million on 30 June 2017 you have some decisions to make about the rest and about the unrealised capital gains in your pension fund on that day

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