

Year End Tax Planning and Your Business



Tax planning is the arrangement of a taxpayer's affairs in a way that complies with tax laws while minimising tax expense. This article discusses some common tax planning techniques. They include delaying the receipt of assessable income and capital gains, and maximising deductions.

Delay

Delay could be very useful this year due to the changes in the thresholds for the individual rates, where the delay could reduce your overall tax bill. There are no changes to the Marginal Tax Rates but there have been changes to the levels at which they come in. Taxpayers may consider rendering accounts after 30 June to defer income.

Maximising Deductions

Business taxpayers

- Review debtors prior to 30 June to identify and to write off any bad debts.
- Capital assets costing \$100 or less are eligible for an immediate deduction.
- Review the asset register to identify any low-cost and/or low-value assets that may be pooled to access an accelerated rate of depreciation.
- Business-related capital expenditure may be deductible, including establishment of business premises, research into likely markets or profitability of a business and due diligence reports.
- Write off any depreciating assets which are no longer being held for use.
- Paid employees' superannuation contributions before 30 June to obtain a deduction and avoid the Superannuation Guarantee Charge.
- Review trading stock for obsolete stock for which a deduction is available.
- A one-off bonus deduction of up to 50% for eligible tangible depreciating assets purchased between 13 December 2008 and 31 December 2009 may be available.

Non-business taxpayers

- Investors should consider prepaying interest on margin loans to obtain a deduction.
- A deduction for personal superannuation contributions may be available.
- Donations.

Capital Gains Tax

- Consider deferring the disposal of an asset to the 2009/10 income year.
- Consider deferring the disposal of shortly-held assets to access the CGT discount, where available.
- Consider crystallising any unrealised capital losses in the income year if a significant capital gain is anticipated.

- Individual taxpayers can consider contributing some or all of the gain to superannuation because a deduction may be available for such contributions.
- Consider whether rollover relief is available to defer any capital gains.
- Consider the availability of the small business CGT concessions which can disregard, reduce or defer a capital gain arising from the disposal of an asset which has been used by an entity in the course of carrying on its business.

Superannuation

Strategies for Individuals

- Low-income earners (including self-employed persons) can consider making a personal superannuation contribution to qualify for the government co-contribution payment.
- A re-contribution strategy may produce tax benefits certain taxpayers, even after 09/10 budget changes which reduced the amount you will receive.
- Consider splitting contributions between spouses to effectively transfer concessional contributions to the spouse who will reach age 60 first.
- A tax offset may be available to taxpayers who made eligible contributions to a superannuation fund for their low-income or nonworking spouse.
- Taxpayers who have reached their preservation age should consider the benefits of a transitional to retirement pension.
- The government has introduced a measure allowing pensioners the option to draw only half of the year's minimum required pension amount.

Specific Structures

Taxpayers should review business structures to ensure that they are still tax effective, and allow utilisation of tax rate changes, CGT discounts and small business concessions. Below are considerations specific to companies and trusts.

Companies

- The franking percentage for distributions to shareholders should be the same for each franking period to avoid a franking deficit tax.
- A private company has four months after the end of the income year to provide its shareholders with a distribution statement for dividends paid.
- Loans, payments and debt forgiveness by private companies to their shareholders and associates may give rise to unfranked dividends assessable to the shareholders and associates. As such, loans or payments should be repaid by the earlier of the due date for lodgment of the company's return for the year or the actual lodgment date. Alternatively, appropriate loan agreements should be in place.

Trusts

- Children under 18 can receive up to \$1,667 in non-taxable distributions this income year.
- Avoid retaining income in the trust because it may be taxed at 46.5%.
- If a company is owned by a discretionary trust, consider whether a family trust election (FTE) is needed to ensure any losses or bad debts incurred by the company will be deductible.
- If shares are owned by a discretionary trust, consider the necessity for the trustee to make a FTE to ensure any franking credits attached to the dividends will not be 'wasted'.

- If a FTE has been made, avoid distributing outside the family group to avoid the family trust distributions tax.
- If a trust has an unpaid present entitlement to a corporate beneficiary, the unpaid entitlement should be paid by the earlier of the due date for lodgment of the trust's return for the year or the actual lodgment date.

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