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## Getting ready for year end

Effective planning and preparation is critical for all taxpayers as the end of financial year approaches.

The good news is that your tax professional is here to support you, so you don't have to do all of the heavy lifting yourself.

This is the perfect time of the year to seek advice from your accountant - maximise your tax savings for 2014-15 and start planning fresh for next year.

# YEAR END STRATEGIES

*The 2014/2015 Tax Guide for You and Your Business*



**Leenane Templeton**  
chartered accountants + business advisors

## Tax tips for property investors

*Savvy Australian property investors can save a large amount on their tax bill by deducting associated expenses.*

Negative gearing allows property investors to claim any shortfall between their income and expenditure on an investment property as a deduction against their total taxable income.

Most property investors are aware of the usual expenditure deductions that they can use to offset any income earned by an investment property. Regular costs such as maintenance, repairs, interest on loans and management fees can all be used to offset rental income.

However, there are a few lesser known tax strategies that property investors may care to look at as June 30 approaches:

### Refinancing your mortgage

Refinancing your mortgage usually incurs a couple of one-off costs and fees. Investors who are planning on refinancing their mortgage may care to consider doing so before June 30 in order to claim these costs

as a deduction in the 2014-15 financial year.

### Pre-pay interest

Property investors who have sufficient funds to pre-pay interest on a loan can do so and claim the deduction in the current financial year. It is also possible to pre-pay (and claim a deduction for) your upcoming property insurance premiums.

### Bring forward maintenance expenditure

If there are maintenance tasks that you know will need to be completed on an investment property, then you may wish to complete them before June 30 in order to minimise your tax bill in the current financial year.

### Stay on top of your paperwork

Make sure that you are aware of the depreciations on any fittings or repairs, as well as any other costs you have incurred, for example, strata fees, management fees or rental losses.

Property investors are highly advised to discuss their tax situation with an accountant to ensure that their activities are compliant and that tax savings are maximised.

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# Surviving the run up to June 30

*Every small business owner knows the stress that comes with the end of financial year.*

A lot of valuable time and energy gets poured into getting your paperwork in order and making sure that you're minimising your tax bill as much as possible.

The good news is that there is still time to sort things out, and with this checklist you can feel confident that you are on top of your tax:

## Keeping on top of your records

*It is essential for all small businesses to have an effective record keeping system in place.*

Having your records in good working order will significantly reduce the stress that comes with the end of financial year, and will ensure that you make the most out of all of your potential tax savings.

Well organised records carry the additional benefit of allowing you to review your finances easily, potentially showing you where you may be losing out unnecessarily. Records that you must keep include:

### Income tax records

You will need all of your income details and expenses in order to prepare your activity statements and your annual tax return. These records may include invoices, cash register tape, receipts and records that indicate the breakdown of personal and private use of an asset.

### Bank records

This includes bank statements, loan documentation and records of any cash deposits.

### Year-end records

At the end of financial year you will need to be able to provide the ATO with a list of all of your creditors and debtors, as well as a spreadsheet detailing all of your depreciating assets, your capital gains records and your stocktake details.

### Get on top of your records

If you've been organised this year then you deserve to give yourself a big pat on the back! If, however, you've fallen behind on your record keeping responsibilities, we advise you to get as much as you can together and get it to your account ASAP.

### Write off bad debts

Unfortunately, there will be times that a client does not pay you for work that has been completed. This is known as having a bad debt and it is an extremely frustrating situation for any business owner.

A small consolation can be found in the fact that bad debts are tax deductible. In the event that you have a bad debt, it should be formally written off in your financial records. You will then be able to claim it as a deduction against your taxable income. It may also be necessary for you to provide the ATO with proof that you have taken reasonable steps to recover the amount.

### Seek advice on legislation changes

These changes may be from the last financial year, and, therefore, require you to take certain steps in the next few weeks. There may also be additional changes that will be announced



in the upcoming May Budget. It is important to be aware of any impending changes as they may influence your tax strategy and decisions as June 30 approaches.

### Get the ball rolling on stocktake

Retailers and wholesalers are required to undertake a stocktake at the end of each financial year.

However, if your annual turnover is less than \$2 million and the difference in value between your opening and closing stock can reasonably be estimated to be less than \$5000 then you are exempt from this requirement.

## End of financial year: SMSFs

*The compliance requirements for SMSFs are extremely stringent, and it is important for trustees to be acutely aware of their responsibilities.*

Of course, your accountant is there to help you out, but you should always aim to have a robust understanding of your SMSF's reporting requirements.

### Withdrawing minimum pension

SMSFs that do not distribute minimum pensions to members who are in pension phase may face hefty tax penalties. If a member of your SMSF has recently reached pension phase or you are at all unsure as to what your minimum pension amount is, please do not hesitate to contact our office.

### Depositing contributions

All of the contributions that have been recorded for your SMSF need to be deposited in the SMSF's bank account by no later than June 30 2015. This is especially important where members have reported concessional or non-concessional contributions.

### Spouse contributions

If you are eligible to split your superannuation contributions then you may be able to make some savings on your tax bill come June 30.

This is especially true where your spouse is a low-income earner. However, even if your spouse is not a low-income earner, there are other advantages to splitting income between accounts, for example, increased income flexibility in retirement.



# Upcoming ATO compliance targets

*Every year, the ATO announces a number of compliance areas that will be subject to additional scrutiny.*



It always pays to be aware of these focuses, as non-compliance is, more often than not, the result of an honest mistake as opposed to willful deception. Unfortunately, an honest mistake can still cost you dearly in penalties and/or interest on late payments to the ATO. In the 2014/15 financial year, the ATO will be focusing on:

## Personal technology

Deductions claimed for personal technology items such as smartphones, tablets and laptops. Taxpayers who are claiming deductions on such items should ensure that they have adequate documentation to prove the breakdown of personal/work use (for example diary entries). You are only able to claim a tax deduction equivalent to the portion of the use that is professional.

## Cash economy

The ATO will be aiming to identify businesses that operate off the books by failing to

accurately record their cash transactions. This may involve paying employees in cash (and therefore avoiding minimum wage requirements and the super guarantee) and/or underreporting the business's profits, thereby reducing the overall tax liability.

## GST compliance

The GST compliance program involves ensuring that all businesses that are required to register for GST have done so (that is all businesses with an annual turnover in excess of \$75 000). The accuracy of BAS reporting is also under scrutiny.

## Travel costs

Taxpayers claiming large deductions in the form of work-related travel costs will be subject to additional examination from the ATO this year. In particular, the tax office has warned that it will be focusing on the validity of deductions claimed for the transportation of bulky tools and equipment.

# End-of-year superannuation checklist

*As the end of financial year approaches, it pays to start thinking about whether or not you will be able to make any additional personal contributions to your super.*

In addition to topping up your retirement nest egg, you will also benefit from some generous tax breaks.

Recently, there has been a lot of discussion surrounding the future of these tax concessions so if your financial situation is permitting, it might be worth considering maximising your contributions as soon as possible.

## Super for the self-employed

Self-employed Australians can make contributions to their superannuation and claim a full tax deduction.

These contributions are considered to be part of your concessional contributions cap (tip: deductible superannuation contributions can offset an unusually large taxable income, for example, if you have made a significant capital gain from the disposal of an asset).

## Set up a salary sacrificing arrangement

In a salary sacrificing arrangement, your employer will hold back part of your gross (before tax) pay and contribute it to your nominated superannuation account.

The contributions to your super account are taxed at the flat rate of 15%, which is typically much lower than your marginal tax rate. Salary sacrificing into your super reduces your total taxable income, thereby reducing your tax bill.

## Super contributions for your spouse

If you have a spouse who is a low-income earner (as is often the case when one party has taken time out from the workforce to raise a family) then making superannuation contributions on their behalf is a great way to reduce your tax bill.

As an added benefit, their superannuation savings won't suffer from their contributions break, and the money will work hard due to compound interest and low tax rates.

Having savings in two different superannuation accounts can also increase your options and financial flexibility in retirement.

It is important to monitor your contributions caps to make sure that you do not exceed

the maximum amounts allowed. Super contributions exceeding the caps will be taxed at the top marginal tax rate.

## End-of-financial year superannuation tax checklist:

- Do I have the necessary records for all of my superannuation contributions and accounts?
- What is the total amount that I have contributed this year (including my super guarantee amounts)?
- Can I make a contribution for my spouse? And is this an effective tax minimisation strategy?
- Were there any contributions from the previous financial year that I can super split into this current financial year?
- Should I consider making any additional contributions before the end of financial year (concessional and non-concessional)?

# Making the most of small business tax breaks

*There are a number of small business tax breaks that it pays to be aware of as the end of financial year approaches.*

We have compiled this brief overview to give you an idea about whether any of these will be beneficial to your business:



## Trading Stock

Small businesses can opt out of doing an end of year stocktake (which can be expensive) if the value of their trading stock has not gone up or down by more than \$5000 in the past financial year.

## Simplified depreciation

Small businesses can immediately write off the value of any business assets that were less than \$1000. The depreciation on all assets valued at over \$1000 can be calculated as a single pool that depreciates at 15% in the first year and 30% every year after that.

However, there are some assets that are excluded from the simplified depreciation rules. Businesses that are using the simplified depreciation should seek advice on any assets that may require a different method of calculating depreciation.

## CGT concessions

There are four CGT tax concessions available to small businesses that can be extremely

effective in minimising, or even eliminating, CGT liability. These concessions are:

- **The retirement exemption:** Available to small business owners over the age of 55, or when the capital gain is contributed to a superannuation account
- **The 15 year exemption:** Available to retiring small business owners who have held the asset for over 15 years
- **The 50% active asset reduction:** Where an asset is considered to be 'active' the CGT liability may be reduced by 50% (the requirements here are complex and it is advisable to seek professional advice)
- **The CGT rollover:** If a business asset is disposed of and the business plans to purchase a similar replacement asset, then the CGT bill may be deferred for at least two years.

There are specific rules about the order that these CGT concessions should be applied. It is advisable to seek professional advice before applying any to your tax return.

# Capital gains at end of financial year

*The end of financial year is a good time to think about your capital gains and losses for the year.*

Timing and planning are everything when it comes to minimising your CGT bill and making the most out of your investment returns.

Capital gains tax (CGT) is incurred when a taxpayer disposes of an asset, for example, commercial and residential property, shares, units in unit trusts or collectables. If the asset sells for a price that is higher than the purchase price, the difference is considered

to be a capital gain. Where an asset is sold at a loss (for a smaller amount than it was originally purchased), a capital loss is incurred. Capital losses can be used to offset capital gains in a financial year. It is also possible for taxpayers to carry capital losses forward to subsequent years if they do not have capital gains against which they can deduct them at the time.

Here are some strategies to reduce your CGT liability:

## Use CGT concessions

As detailed in the article above, there are a number of CGT concessions that are available to small businesses. These concessions can be extremely effective in reducing your CGT bill, and, in some circumstances, may even reduce it to nil.

Check to see if you qualify for any of these CGT concessions. Taxpayers who do qualify for any of the CGT concessions are in an advantageous position when it comes to paying their tax bill.

## Dispose of poorly performing assets before the end of financial year

In years where you have incurred a significant capital gain, you may care to consider disposing of another asset that will yield a capital loss.

In the event that an underperforming asset will not have a positive turn around, disposing of it before the end of financial year will allow you to use the capital loss to offset your tax liability from any capital gains.

## Defer disposal to a lower-income year

Instead of disposing of an asset that you expect to make a capital gain on this year, you may care to consider postponing the disposal if you expect to have a lower taxable income next year. For example, you may be planning to take some unpaid leave or have disposed of multiple assets in the current year.

## Plan for CGT events in advance

If you are planning on making any new investments or disposing of assets, it always pays to plan your CGT strategy in advance. Careless timing can cost you a huge amount on your tax bill.

## Carry forward your capital losses

You can carry forward capital losses from previous years to offset capital gains in the current year. The real offset value of capital losses diminishes, so if you have incurred a significant capital loss you may care to consider bringing forward the sale of an asset that you expect to make a capital gain on.

