

It's that time of year again and if you haven't done so already, you need to think about getting ready for year end tax returns. Time moves quickly so if there is anything that you need to do before June 30th, start thinking about it now as end of year will be here before you know it. There are a number of items that both **employees and employers** should be mindful of as part of their tax planning strategies. The following lists some of the items that need to be considered but should not be taken as a fully comprehensive list as each taxpayer has specific issues that they may need to deal with.

In summary there are different classes of taxpayers, each with different considerations but the essence of tax planning is to

- Slow down revenue
 - Accelerate deductions and
 - Prepay expenditure subject to certain rules.
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Small Business Entities –SBE

In relation to a business with a turnover of less than **\$2million** special rules apply that may enable greater deductions to be achieved. These concessions to smaller business are varied and related to depreciation, investment allowance, interest deductions and also prepayments.

A real opportunity exists with regard to the prepayment rules which are available to an SBE. Consider prepaying rent, lease payments, and interest up to 12 months in advance. Other business expenses can be prepaid but seek advice from your accountant to ensure that you are able to access these benefits. The last thing you want is to make a prepayment to find that you were eligible for the tax deduction.

BUSINESS CLAIMS

Investment allowance

While everyone's circumstances are different there are a few items that you need to remember. In particular, if the business acquired an asset including a motor vehicle in the last 12 months you may be entitled to the one off special **investment allowance** that the government was offering as part of its incentive package to combat the effects of the GFC. The details of that allowance were quite complex but in summary it is as follows:

For Eligible Assets ordered between 13 December 2008 and 30th June 2009 but not installed by June 2009 you can claim in the current 2010 year the deduction of the 50% or 30% investment allowance. The amount claimed will depend on the size of the business making the claim, i.e. small business entities can claim the higher amount.

For assets ordered after 1st July a 10% allowance can be claimed so long as a \$10,000 minimum cost of the asset has been incurred.

In all cases the assets must be installed by 30 June 2010 to be entitled to make the claim.

Superannuation payments

Superannuation payments must be cleared before 30th June to claim as a deduction in that year, i.e. amounts due cannot be accrued and claimed. Also make sure that you maximize your contributions and do not exceed the thresholds. Amounts have been halved in the last year to **\$25,000** per person if under the age of 50.

Motor vehicles

For employers who provide cars for employees (including directors) the costs of running cars are deductible but Fringe Benefits Tax (FBT) will apply to the non business portion. There are special rules for how this works but the FBT information will need to be provided to your accountant for the 12 months ending 31st March (the FBT year is from the 1st April to the 31st March) unlike the financial year which ends on the 30th June.

Bring forward expenditure

If the business needs to incur expenses in the near future, consider bringing the expense forward. There are specific rules regarding prepayments so consult your accountant as these rules are not straight forward.

Donations

Many companies today have a strong social conscience. If you are planning giving a donation at Christmas time, consider bringing this forward and make the payment prior to year end.

Interest

If you were late making any tax payments last year and you did not apply for relief from the ATO for the interest they will have charged, this interest can be claimed. Penalties cannot be claimed only the interest. Remember however that it may not be too late to make that request for remission. If the ATO paid you interest because they were late issuing assessments (and this did happen alot) then remember to declare the interest paid as income.

Scrap old assets

Scrap old assets that are no longer in place. Many companies carry computers and other assets that in fact have been scrapped. Check your asset register or depreciation schedule to see if it reflects assets that you still have. If not, scrap them and benefit from the write off. It may also be possible that the effective lives of assets needs to be reassessed.

Loans and deemed dividends

If the business structure is a company and there have been loans to shareholders or related parties, they can trigger tax obligations by deeming the payments to be dividends. These are complex rules so if monies have been borrowed and you are not sure of whether or not you have any tax obligations, please contact your accountant as a matter of priority.

Accruals

Notify your accountant of any obligations that you have incurred that have not as yet been paid, .i.e. You may have received goods or services from someone but are as yet to either receive an invoice or make a payment .

EMPLOYEES

Depending on the type of arrangements you have with respect to motor vehicles there are a number of things to consider. For employees who own their cars, there are a number of methods of claiming motor vehicle costs. The different methods are structured in a way that the better records you keep the more you are likely to be able to claim. In principal there are 4 methods:

- Log book - Actual costs based on percentage of business use. Allows you to claim all costs such as running costs, repairs, depreciation and interest if it is financed. Full records required.
- 12% of cost of the vehicle if more than 5000 kilometres travelled for business. Minimum records required but claim is based on cost of the vehicle.
- Up to 5000 kilometres, an amount per kilometre can be claimed. Minimum records required to be maintained but can only claim the set rate per kilometre.
- One third of actual expenses. Where more than 5000 kilometres are travelled for business per annum. Records are required. For fuel and oil costs, you can choose to maintain odometer records and calculate consumption.

The same method does not have to be used each year so you can elect which one provides you with the best outcome.

Salary sacrifice

Elect to have bonuses (as yet to be earned) paid in to your superannuation fund. This must be a prospective election which means you cannot have earned the bonus first and then passed it to your fund. By putting in place proper salary sacrifice notifications to your employer you can save the tax that would otherwise be paid in your own name. The benefit being that the superannuation fund pay at the much lower rate of only 15% instead of a much higher rate which could be as high as 46.5%. The same could be done with a part of your salary.

Records

Remember that as a rule you should be keeping receipts. While there is a cut off for which receipts are not needed, \$300, at the time of incurring each expense you do not know if the threshold will be reached and so best to ensure you have them all. Note that car expenses do not apply to this \$300 threshold.

In the coming months before year end you should take the time to speak with your tax agent / accountant, to ensure that your position re maximum tax efficiency is achieved with a minimum fuss. By planning properly you will save both dollars as well as the aggravation of having missed out or handling it in crisis mode at the last minute.

Yours faithfully

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Sothertons: An association of independent accounting firms throughout Australia