Improve tax planning

HAVE you got your tax planning in order?

June 30 is rapidly approaching! The ATO acknowledges you have the right to arrange your financial affairs to keep your tax to a minimum. We call it "tax planning" and it is typically done just before the end of the financial year.

WHAT IS TAX PLANNING?

Long-term tax planning

Ideally you should have a long-term "year-in-year-out" strategy by having your business and financial affairs structured to achieve an acceptable overall average rate of tax. This should take into account long-term goals and cash flow needs. Paying tax is a major "cash outflow" and tax is paid with after-tax dollars. Paying too much tax can severely cripple a business. On the other hand, spending money just to reduce tax can also destroy your cash flow and viability. Everyone has heard that "cash is king" and it is!

Prepare estimates of actual taxable incomes to see if everything is on track per your long-term strategy and adjust accordingly to get the best possible outcome for this financial year.

End of financial year tax planning

Between now and June 30 you can optimise your taxation position.

1. Plant and equipment purchased after April 2, 2019, costing less than $30,000 (net of GST) can be instantly written off for tax purposes. This is available for businesses with turnovers up to $50 million until June 30, 2020. From January 29, 2019, to April 2, 2019, the instant asset write-off limit was $25,000 and limited to businesses with a turnover of less than $10m. Before January 29, 2019, assets had to be less than $20,000.

2. General SBE Pool Write-off if less than $30,000. If you a have turnover of less than $10m, the balance of your general depreciation pool can be written off in the year it reduces to less than $30,000.

3. Depreciation Pooling for Small Businesses. Small businesses with a turnover of less than $10m can pool their depreciable items and take advantage of higher depreciation rates. They can claim 15 per cent write-off in the year an asset is added to the pool and the pool is written-off at 30pc per year. If you dispose of an asset, the proceeds can be used to reduce the pool instead of having to bring to account depreciation recouped as income.

4. New fencing is entitled to an immediate write-off.

5. New water facilities are entitled to an immediate write-off.

6. Fodder storage facilities paid for or first used after August 19, 2018, are immediately written off. The "facility" must be "mainly" used to store fodder.

7. Primary producers can make deposits into Farm Management Deposits and not pay tax on them until withdrawn. FMDs are limited to $800,000 per person at a time and can only be made if your non-primary production income is less than $100,000 in the year you deposit. Consider whether or not you are likely to have lower income years in the future to cash them in tax effectively. FMDs are not for everyone. Beware of cashing them in without doing careful tax planning, particularly if you operate through a trust. You may need to give your bank 30 days' notice.

8. Livestock producers can defer profit from the forced sale of livestock because of the loss of pastures by fire, flood or drought.

9. Tax relief is available on the proceeds of the sale of two wool clips arising in an income year because of an early shearing due to drought, fire or flood.

10. Converting Primary Production income into Non-Primary Production Income. Be careful when paying family wages as you are effectively converting primary production income into non-primary production income and may upset their ability to use FMDs and other specific provisions for primary producers.

11. Individuals can contribute up to $25,000 into superannuation tax effectively. Concessional contributions are taxed at 15pc inside the fund. There are other ways to contribute to superannuation, that do not gain tax deductions but can help move wealth where the investment earnings will be taxed at 15pc or tax-free if in pension phase.

12. Consider if there are opportunities on what value you use for closing stock this year. You can choose between cost, market selling value and replacement value. If you have significant tax losses you could choose market selling value to lift the book value of your stock.

13. By law trust distribution minutes must be prepared and signed before June 30. Detailed estimates and planning are essential. Check your trust deed to ensure you know who can be benefit from the trust.

14. Distributing from Trusts to "Bucket Companies". The company tax rate for businesses with turnover less than $50m is 27.5pc for most small businesses. This may apply to your beneficiary company. Seek advice.

15. Prepaying Expenses. I don't believe in giving money to someone before you have to! There is also a real risk the supplier may go broke before you collect what you have paid for, but sometimes prepaying expenses can be worthwhile.

16. Prepaying Interest. As above!

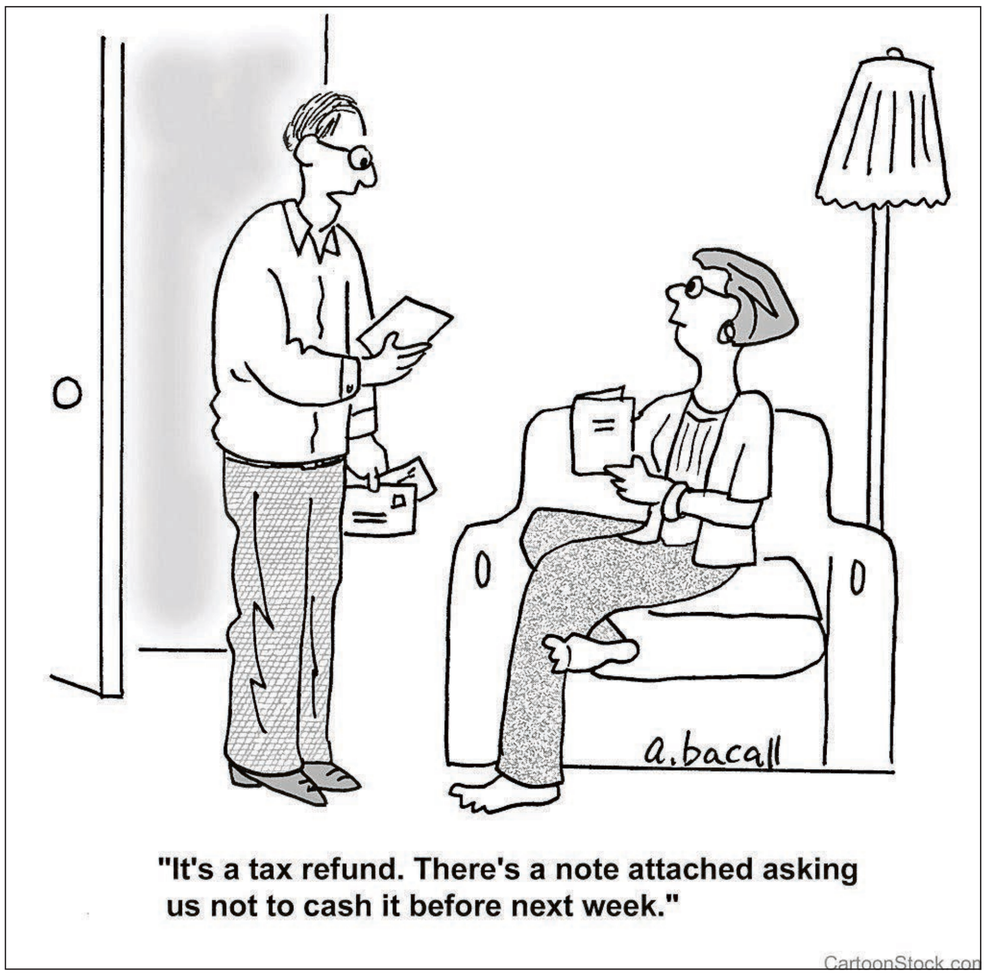
17. Financing equipment - lease verses chattel mortgages. With the turnover test for small businesses now $10m, depreciation rates are generous. Leasing may not be as tax-effective as it may have been. Lease payments can be prepaid for up to 12 months, which may be a suitable strategy.

18. Based on your tax structures, consider income splitting opportunities.

19. Have you made a capital gain? The Small Business Capital Gains Tax Concessions are generous. If you have, seek advice to ensure you are using them effectively.

20. Make tax-deductible donations to charities - registered deductible gift recipients.

Tony Olsen is a director of Flor-Hanly, Commercial and Agribusiness Accountants. Contact 4963 4800. This information is of a general nature. It does not take into account personal financial circumstances. Tailored professional advice should be sought before acting on this information.



"It's a tax refund. There's a note attached asking us not to cash it before next week."

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