2018 Year end tax planning – hints and tips

WITH 30 June 2018 fast approaching, now is the time to explore methods that will reduce your tax liability before the end of the financial year.

Kerry Packer once said "Of course I am minimising my tax. And if anybody in this country doesn't minimise their tax, they want their heads read, because as a government, I can tell you you're not spending it that well that we should be donating extra!"

What is Tax Planning or Tax Minimisation? According to the Australian Master Tax Guide – Tax Planning is the process of organising the affairs of a taxpayer or group of tax payers so that, as far as legally or commercially possible, the liability of the taxpayer or group of taxpayer's income and other taxes are minimised.

Tax planning is not limited to complex, high risk or sophisticated arrangements. Taxpayers contemplating even the most ordinary transactions should give proper consideration to tax planning to ensure they do not suffer adverse tax consequences.

Tax Planning opportunities:

When considering the implementation of tax planning strategies we cannot assume the "one size fits all approach". All individuals and business are different and all must review their individual circumstances, as a strategy that works for one may not work for you.

Below is a list of tax planning opportunities that can be implemented pre 30 June 2018 to minimise tax payable for either you individually or your business entity.

1. Defer Income
2. Bring Forward/Prepay Expenses
3. Capital Gain Concessions
4. Concessional Superannuation Contributions
5. Negative Gearing Strategies
6. Small Business Entity Tax Concessions

The above strategies can permanently reduce, eliminate or defer the amount of tax liability, or even delay the need to pay the tax liability for a further 12 months.

1. Defer Income

a) Businesses that operate on an accruals basis (income is recognised when an invoice is raised), can delay raising invoices until after June 30 and therefore defer income into the next financial year.

b) Businesses that operate on a cash basis (income is recognised when cash is received), can delay the receipt of payment until after June 30.

A reduced taxable income can also impact on eligibility for Government Benefits (e.g. Child Care Benefit and Family Tax Benefit).

When deferring income we also have to be aware of the negative effect this has on your cash flow, holding off billing until the following month can defer payment for a further 30 days.

2. Bring Forward/Prepay Expenses

Taxpayers may chose to bring forward operating expenses into current financial year to qualify as a tax deduction. Also taxpayers may elect to prepay expenses up to 12 months ahead (provided a commercial basis exists for doing so and cash flow allows).

Examples of expenses that can be prepaid or brought forward are:

- Rent
- Interest
- Insurance
- Short Term Business Consumables
- Bonuses and Director Fees

Hint: Accounts payable — If services have been provided to you ensure that you have an invoice dated before 1 July, 2018. On the accruals method of accounting this will be treated as a tax deduction even without receipt of payment.

3. Capital Gain Concessions

The timing and concessions of a CGT event can have a substantial effect on the tax payable for a financial year. The three below points should be considered when selling a taxable asset.

a. Small Business Concessions – You should consider the availability of other small business CGT concessions which have the effect of reducing or deferring a capital gain arising from the disposal of a business asset.

- 15 Year Exemption
- 50% Active Asset Reduction
- Retirement Exemption
- GCT Rollover

b. CGT Discount – The CGT discount is not available when you sell an asset that you have held for less than 12 months, this reduces the capital gain by 50%. Consider deferring the disposal of these assets until the 12 months threshold has past.

c. Roll gain into Superannuation – In some circumstances you can avoid paying tax on capital gains if you use some or all of the funds to make a personal superannuation contribution.

4. Concessional Superannuation Contributions

As of 1 July 2017, employed persons under the age of 75 (who meet the work test) will also be able to make personal Concessional Contributions up to $25,000 and claim this as a tax deduction. Personal deductible contributions are taxed in your super fund at a flat rate of 15%. If you pay personal income tax, this rate may be lower than your marginal tax rate, resulting in a tax saving. Superannuation is a great strategy for tax planning to reduce your taxable income before 30 June and also save for your retirement.

5. Negative Gearing

What is Negative Gearing? This is a term commonly used when referring to the practise of investing borrowed money in such a way as to result in a loss that can be claimed as a tax deduction.

Negative gearing can be attractive because under current Australian taxation laws, you may be able to claim a deduction for interest and expenses, which can be offset against assessable income, such as salary, business income or investment income. The most commons forms of negative gearing that can be used to reduce tax payable are:

- Property
- Shares

Please note that negative gearing may not be suitable for all investors. Whilst it can lower your tax liability, the tax implications will depend on your personal situation as well as your attitude to risk and the type of investment chosen. You should always seek qualified advice. Our experienced team at Southern Cross Property Advisers are well positioned to provide trusted advice. Please contact our office on 5018 6444 for a no fee initial consultation.

6. Small Business Entity Tax Concessions

A business with a turnover of less than $10m should consider the following tax concessions available before 30 June 2018 to aid in minimising your taxable income.

- Immediate Write-off for business assets bought and used or installed for use by 30 June 2018 under $20,000.
- Simplified Depreciation Rules – General pool depreciation is utilised for assets purchased over the value of $20,000 with first year depreciation of 15% and 30% for following years.
- Simplified Trading Stock Rules - you can avoid an end of year stocktake if the value of the stock has changed by 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.
- Writing off Obsolete Stock, Plant & Equipment, bad debt write-offs and paying the Compulsory Employee Superannuation payments by 30 June can all reduce taxable income.

Primary Producers:

In addition to the general and small business tax concessions available to taxpayers, Primary Producers may be eligible for access to the following provisions for tax planning:

- Income Averaging: allows primary producers to even out income across years so their tax liability is more aligned with that of a taxpayer on a stable income. This can be useful when determining profit allocations.

  Hint: With forward planning of primary production distributions to a minor we have ability to stream larger taxable profits at a low marginal tax rate once the minor comes of age, due to primary production averaging.
- Farm management deposits (FMDs) allow primary producers to carry over income from one year to another. A FMD is a cash deposit, like a term deposit that enables primary producers to defer the income tax on their primary production income from the income year in which the deposit is made until the income year in which the deposit is repaid.
- Immediate deductions for:
  - Landcare operations, such as drainage work to prevent salinity, erosion control activities
  - Erecting fences
  - Dams, tanks, bores, wells, irrigation channels, pipes and pumps.

We're here to help!

As previously stated, the above tax planning opportunities are general in nature and will not be suited to everyone. Careful consideration into your individual circumstances will apply. Contact our experienced team at Southern Cross Business Advisers on 5018 6444 to assist with your tax planning requirements.

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