TROOD PRATT & CO

Chartered Accountants
Level 21 68 Pitt Street Sydney NSW 2000
Phone: 61 02 8224 8000 Fax :61 02 8224 8099
Email: enquiries@troodpratt.com.au

client alert

tax news | views | clues

Tax planning

Simply put, tax planning is the arrangement of a taxpayer's affairs so as to comply with the tax law at the lowest possible cost. This involves objectively assessing and actively managing tax risk. Common tax planning techniques include deferring the derivation of assessable income and applying techniques to bring forward deductions.

Deferring income

- Income received in advance of services to be provided will generally not be assessable until the services are provided.
- Taxpayers who provide professional services may consider, in consultation with their clients, rendering accounts after 30 June to defer the income.
- A taxpayer is required to calculate the balancing adjustment amount resulting from the disposal of a depreciating asset. If the disposal of an asset will result in assessable income, a taxpayer may want to consider postponing the disposal to the following income year.

Maximising deductions

Business taxpayers

- Debtors should be reviewed prior to 30 June so that any bad debts can be identified and written-off.
- A deduction may be available on the disposal of a depreciating asset if a taxpayer stops using it and expects never to use it again. Therefore, asset registers may need to be reviewed for any assets that fit this category.
- Review trading stock for obsolete stock for which a deduction is available.

Non-business taxpayers

- Outgoings incurred for managed investment schemes may be deductible.
- Assets costing $300 or less may qualify for an immediate deduction, subject to certain conditions.
- A deduction for personal superannuation contributions is available where the 10% rule is satisfied.

Capital gains tax

- A taxpayer may consider crystallising any unrealised capital gains and losses in order to improve his or her overall tax position for an income year.

Small business entities

- From 2012–13, the small business instant asset write-off threshold will be increased from $1,000 to $6,500.
- Consider whether the requirements to be classified as a small business entity are satisfied to access various tax concessions, such as the simpler depreciation rules and the simpler trading stock rules.
- Eligible small business entities can access a range of concessions for a capital gain made on a CGT asset that has been used in a business, provided certain conditions are met.

Companies

- Companies should ensure that all dividends paid to shareholders during the relevant franking period (generally the income year) are franked to the same extent to avoid breaching the benchmark rule.
- Loans, payments and debt forgiveness by private companies to their shareholders and associates 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.
- Companies may want to consider consolidating for tax purposes prior to year end to reduce compliance costs and take advantage of tax opportunities available as a result of the consolidated group being treated as a single entity for tax purposes.
- Companies should carefully consider whether any deductions are available for any carry forward tax losses, including analysing the continuity of ownership and same business tests.

Trusts

- Taxpayers should review trust deeds to determine how trust income is defined. This may have an impact on the trustee's tax planning.
- Avoid retaining income in a trust because the income may be taxed at 46.5%.
- If a trust has an unpaid present entitlement to a corporate beneficiary, consideration should be given to paying out the entitlement by the earlier of the due date for the lodgment of the trust's income tax return for the year or the actual lodgment date to avoid possible tax implications.
- Trustees should consider whether a family trust election (FTE) is required to ensure any losses or bad debts incurred by the company will be deductible and to ensure that franking credits will be available to beneficiaries.

Personal services income

- Individuals operating personal services businesses should ensure that they satisfy the relevant test to be excluded from the Personal Services Income regime or seek a determination from the Commissioner.

FBT – car fringe benefits

- The four rates used in the statutory formula method for determining the taxable value of car fringe benefits are being replaced with a single statutory rate of 20% for fringe benefits provided after 10 May 2011. Taxpayers should review contracts for changes to a "pre-existing commitment".

Superannuation

- The ATO has reminded taxpayers to consider the superannuation contributions caps when planning tax affairs to avoid excess contributions tax.
- The Government has proposed that eligible individuals who breach the concessional contributions cap by up to $10,000 will be allowed a once-only option for the excess contributions to be refunded without penalty.
- The Government has proposed to temporarily "pause" the indexation of the superannuation concessional contributions cap so that it will remain fixed at $25,000 up to and including the 2013–14 financial year.
- For eligible individuals, a government low-income superannuation contribution of up to $500 may be available from 1 July 2012.
- A member of an accumulation fund (or a member whose benefits include an accumulation interest in a defined benefit fund) may be able to split superannuation contributions with his or her spouse.

Individuals

- Individual taxpayers with a taxable income exceeding $50,000 in 2011–12 will have to pay an additional levy known as the temporary flood and cyclone reconstruction levy, unless they fall within an exempt class of individuals.
- The Government is phasing out the dependent spouse tax offset. For 2011–12, the offset will only be available to those born on or before 1 July 1971.
- The Government has proposed that from 1 July 2012, living-away-from-home allowances will be taxed to the recipient as assessable income rather than to the employer under the FBT rules.
- The Government has introduced legislation to extend the Paid Parental Leave scheme by introducing a two-week "dad and partner pay".