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PREPARING 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 to maximise your tax savings for 2015-16 and start planning fresh for next year.

YEAR END STRATEGIES

THE 2015/2016 TAX GUIDE FOR YOU AND YOUR BUSINESS

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ATO targeting rental properties

The ATO has begun issuing letters to rental property owners in popular holiday locations whose rental income was lower than expected.

In the lead up to the end of financial year, rental property owners are being reminded by the Tax Office to only claim deductions for the periods when their property was rented or genuinely available for rent.

While it is not uncommon to make mistakes when claiming rental deductions, it is necessary for taxpayers with rental property interests to get their deductions and expense claims right to avoid facing harsh and costly penalties.

Rental property owners cannot claim deductions for expenses such as:

- costs they do not pay e.g. water or electricity charges paid by the tenants
- acquisition and disposal costs, including the purchase cost, conveyancing cost, advertising costs and stamp duty
- initial repairs and improvements costs to the property (these can be added instead to the capital cost of the property)

In addition, the ATO is targeting those who claim deductions for periods when the rental property was used for private purposes. Deductions cannot be claimed for the proportion of expenses that relate to private use.

The Tax Office considers private purposes as use by the property owner, their family, relatives or friends that reside free of charge. If your property is rented out to family, relatives or friends at below market rates, your deductions are limited to the amount of rent received during that period.

Expenses will need to be apportioned on a time basis where the property is used for private purposes, for example if:

- the property is available for rent for only part of the year
- only part of the property is used to earn rent
- the property is rented at non-commercial rates

If you're unsure of what you may be entitled to claim, please contact our office.

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Maximising CGT concessions

Small businesses considering selling assets such as property or business goodwill should revisit the potential CGT concessions available to minimise their tax bill.

There are four CGT concessions that small businesses can use provided subject to meeting specific eligibility requirements. Businesses can apply for as many concessions as they are entitled to until the capital gain is reduced to nil.

The four concessions include:

15-year asset exemption

Owners will not incur CGT when they sell an asset they have owned for 15 years and are aged 55 years or over and are retiring or if they are permanently incapacitated.

50 per cent active asset reduction

Those who own an active business asset will only pay tax on 50 per cent of the capital gain when they dispose of the asset.

Retirement exemption

A capital gain from the sale of a business asset will be exempt up to a lifetime limit of $500,000. For those under 55 years, capital gains must be paid into a complying superannuation fund or a retirement savings account.

Small business rollover

You can defer your capital gain until a later year if you dispose of an active business asset and buy a replacement asset or improve an existing one. The replacement asset can be acquired one year before or up to two years after the last CGT event in the income year for which you choose the rollover.

Year round bookkeeping

Staying on top of your records all year round can save time, prevent unnecessary stress and help maximise a small business's tax return.

Although record-keeping can seem like a monotonous job, it is an essential part of running a business. Good record-keeping makes it easier to meet your tax obligations, manage cashflow and make sound business decisions.

Here are some business records you need to keep:

Expense or purchase records

You must keep records of all business expenses such as receipts, invoices including tax invoices, cheque book receipts, credit card vouchers and diaries to record small cash expenses.

Year-end records

These records include lists of creditors or debtors and worksheets to calculate depreciating assets, stocktake sheets and capital gains tax records.

Income and sales records

You must keep records of all sale transactions such as invoices including tax invoices, receipt books, cash register tapes and records of cash sales.

Bank records

Documents such as bank statements, loan documents and bank deposit books need to be kept in preparation for your tax return.

Income tax records

Records must be kept of all your sales (income) and expenses to prepare your business activity statement (BAS) and annual income tax return.

Tighter rules for collectables

SMSF trustees will need to forego investments such as vintage cars, fine art and wine collections as new rules around collectables and personal use assets come into effect from 1 July.

Tighter rules introduced on 1 July 2011 made amendments to the guidelines for insurance, storage and valuation of collectables and personal use assets held in an SMSF. These rules are to ensure trustees make investment decisions for genuine retirement purposes and prevent trustees from receiving a personal benefit from the investment pre-retirement.

The new legislation applies to a wide range of collectables and personal use assets such as artwork, jewellery, antiques, artefacts, coins, postage stamps, memorabilia, wine or spirits, recreational boats, rare folios, manuscripts or books and memberships of sporting or social clubs.

Trustees must ensure that from 1 July 2016 collectables are not stored in a private residence (such as a member of the SMSF) or leased or used by any related party (including formal and informal arrangements). A collectable must be stored in a related party's business premises, however, it cannot be displayed as the asset may be deemed to be used pre-retirement.

Trustees are also required to document the reasons for a particular storage location and keep that documentation for 10 years. In addition, the assets are to be insured in the name of the fund.

Trustees wishing to transfer collectables to a related party must conduct the transaction at arm's length and the market value must be determined by a qualified independent valuer.

Strict penalties apply to trustees who do not comply with the new legislation.

Breaches can attract a penalty of $1800 per trustee, which can be applied multiple times to each breach. Furthermore, there are existing general administrative penalties that can attract fines of up to $10,800 per trustee for each offence. Trustees must be aware that assets held before 1 July 2011 must comply before 1 July 2016.

Property investment tax tips

Now is the time for property investors to take advantage of the tax strategies available to them.

Travel

The cost of travel to inspect or maintain rental properties or to collect rent is an allowable deduction. Travel expenses can be claimed for preparing the property for new tenants (except for the first tenants), inspecting the property during or at the end of tenancy, undertaking repairs (due to damage or wear and tear) incurred while the property is rented out, maintaining the property (while it is rented) and visiting an agent to discuss the property.

Interest

Prepay interest on property investment loans to bring forward deductions by a year. If your loan account is used for both private purposes and rental property purposes, you must keep accurate documentation to calculate interest that applies to the rental property portion of the loan.

Prepaid expenses

Bring forward any expenditure, such as repairs and maintenance, that would otherwise be attended to after 30 June to claim the costs this financial year. Ensure to distinguish between what the ATO considers a 'repair' and an 'improvement' as improvements are non-deductible. Keep in mind initial repairs to an established property are not deductible.

Consider pre-paying expenses such as insurance premiums, rates and levies to maximise the current financial year's deductions.

PAYG variation

Those with negatively geared investment properties can receive a significant refund upon lodging their tax return. To improve cashflow, property investors can apply for a PAYG variation which allows investors to access their end-of-year tax refund throughout the year rather than a lump sum.

Property investors can lodge an application to vary income tax withholding using a form from the ATO. To continue a PAYG variation, it is your responsibility to reapply yearly for a future variation if your circumstances require it.

Maximise depreciation deductions

A depreciation schedule prepared by a qualified quantity surveyor outlines the tax deductions available, which can help to provide a significant return. The cost of a depreciation schedule is also tax deductible. It is important to review your depreciation schedule to ensure there are no items which are no longer on hand and can be written off.

End-of-year checklist

✓ Capital losses

Selling poor performing assets may enable you to bring forward a tax loss that can be offset against any capital gains made throughout the financial year.

✓ Write-off bad debts

Bad debts can be used to offset taxable income if they are written off before 30 June and provided they have been previously included as assessable income.

✓ Prepaid expenses

Small business entities and individuals may bring forward deductible expenses such as rent, repairs and office supplies, that cover a period of no more than 12 months.

✓ Company tax cut

The small business company tax rate has been reduced from 30 per cent to 28.5 per cent for income years commencing on or after 1 July 2015. The maximum franking credit that can be allocated to a frankable distribution will remain unchanged at 30 per cent on all taxable income, even if a small business is eligible for the 28.5 per cent tax rate.

✓ Trust resolutions

Trustees of discretionary trusts must make and document resolutions by 30 June in relation to how trust income will be distributed among beneficiaries.

✓ Defer income

Businesses that return income on a cash basis may benefit from delaying the "receipt" of the income until after 30 June. Businesses that return income on a non-cash basis may benefit by delaying the "issuing of invoices" until after 30 June.

✓ Employer contributions

Ensure all superannuation guarantee contributions for employees are up-to-date and pay contributions before 30 June.

✓ FBT for work-related devices

An FBT exemption will be allowed for small businesses providing their employees with multiple portable work-related electronic devices from 1 April 2016, even where the devices have similar functions.

✓ Primary producers

From 12 May 2015, primary producers can immediately deduct the costs of fencing and water facilities. The cost of fodder storage assets can also be deducted over three years.

✓ Under $20,000 asset write-off

Small business entities (turnover under $2m) can write off purchases less than $20,000 immediately (in the year of purchase), if it was purchased after 12 May 2015.

✓ Write-off obsolete stock

Write-off slow moving, old and damaged stock by June 30 for an immediate tax deduction. Obsolete stock must be physically disposed of for income purposes to receive a deduction.

✓ Start-up expenses

From 1 July 2015, small business entities starting up a business are entitled to immediately deduct a range of expenses associated with starting a new business. The deductible expenses include professional, legal and accounting advice, and government fees and charges.

Home-based business deductions

Businesses that operate from home can claim deductions for expenses incurred when carrying out income-producing work.

Business owners can claim deductions for a number of expenses including:

Room utilities

The cost of a room's utilities, such as gas and electricity, can be claimed but must be apportioned between business and private usage. The claim must be based on actual usage; anything other than the floor area must be clearly documented.

Business phone costs

Telephones used exclusively for business can be claimed for the rental and calls but not the installation costs. If a telephone is used for both private and business purposes, the business calls can be claimed as a deduction.

Decline in value

Decline in value (depreciation) can be applied to office equipment such as desks, chairs and computers. If equipment is used for private purposes the claim must be apportioned. Decline in value is also applicable to curtains, carpets and light fittings.

Occupancy expenses

Occupancy expenses can include rent, mortgage interest, council rates, house insurance premiums and so forth. You can claim the portion of these costs that relate to the room which is used for business. The most common method of working this out is using the floor area as a proportion of the whole home.

Motor vehicle expenses

Motor vehicle expenses incurred when travelling between your workplace and home are private expenses and therefore are non-deductible. However, home-based businesses can claim deductions for travel between your home and other locations, if the travel is business-related. For example, travelling costs such as visiting a client, delivering a document and driving to your tax advisor could all be claimed as a deduction.

While home-based businesses do not qualify for the main residence exemption that ignores a capital gain or loss when the home is sold, they are entitled to a partial exemption. Therefore, it may be prudent to get a valuation of a home when it is first used for business purposes to avoid paying unnecessary capital gains tax (CGT).

SuperStream deadline

The ATO is urging small business owners to adopt the SuperStream standard before the impending 30 June deadline.

SuperStream is a standard for submitting superannuation payments and data electronically. It is especially convenient for employers who make contributions to multiple funds as data is sent electronically from a single channel.

Under SuperStream, employers have a simpler and more consistent way of making contributions across the super system - between employers, funds, service providers and the ATO. One of the key benefits is the reduced time it takes to make contributions, as only one electronic transaction is needed to cover all employees.

Employers have a range of options available to adopt SuperStream, including upgrading their payroll software, using a clearing house service or their default super fund's portal. To ensure your system is SuperStream compliant, it is best to contact your payroll provider or default fund.

Claiming website expenses

The setup and maintenance of a website can be a costly expense and the rules in relation to what can be claimed are not always clear.

Many of today's small businesses employ the services of a web developer to take care of getting their website up and running since they don't have the time or expertise to be able to do it themselves.

Often, this can be an expensive venture. But luckily, small businesses can claim deductions for website development costs.

Businesses that are already up and running with an aggregated turnover of less than $2 million can use the simplified depreciation rules.

That means if the cost of the website development is less than the instant asset write-off threshold of $20,000, owners can claim a deduction for the full expense amount in the income year they incur the expense.

Where the website costs the same or greater than the instant asset write-off threshold, owners can allocate it to a general small business pool.

Business owners cannot use the simplified depreciation rules if they choose to allocate expenditure on the software to a software development pool.

When the simplified depreciation rules do not apply, website costs have an effective life of five years if the business incurred them on or after 1 July 2015. If the expense is:

- in-house software, the business must use the prime cost method to deduct the cost
- included in a software development pool, the business must deduct different proportions of the expense each year

Business owners are also able to claim an outright deduction for specific running and maintenance costs, such as server hosting fees, domain name and registration fees in the same income year the expenses are incurred.