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# Last-minute individual tax planning tactics

The current financial year is almost at an end, but there are still many strategies you may be able to put into play to ensure you pay not one cent more tax than is necessary for the 2012-13 year.

Of course, the best tax tactics are adopted in July, not June (that is, as early as possible in any financial year, not right near the end of it), however it is also wise to remember that proper tax planning is more than just finding bigger and better deductions — the best tips are those that set your tax affairs in better order for future income years. Of course check with this office if you need further information.

## Investment property

Many expenses stemming from owning a rental property are claimable, so it can be helpful to bring forward any expenses before June 30 and claim them in the present financial year. If you know that an investment property needs some repairs or requires attention regarding pest control, see if you can have these (deductible) payments fall into the 2012-13 year. Also note that this will mean these expenses cannot then be claimed in the next financial year.

## Pre-pay investment loan interest

In a similar vein, see if you can negotiate with the finance provider of your loan for your investment property or margin loan on shares (or other loan types) to pay interest on borrowings upfront, thereby giving you a deduction this year. Most taxpayers can claim a deduction this year for up to 12 months ahead.

But make sure you review how you and your lender have allocated funds secured against your investment correctly, as a tax deduction is generally only allowed against the finance costs incurred for the purpose of earning assessable income from investments.

A deduction may not be available on funds you redraw from this loan put to other purposes unless the funds are drawn from a seperate offset account. These arrangements can be complex, so if you are considering this arrangement please contact this office.

Also, a component of the National Rental Affordability Scheme payment is not assessable income and therefore the deduction on these properties may need to be apportioned. Ask this office if you need assistance.

## Bring forward expenses, defer income

Try to bring forward other deductions (like the interest payments mentioned above) into the 2012-13 year. If you know that next year you will be earning less (maternity leave, going part-time etc) deductible expenses that can be brought forward into the present financial year will provide more financial benefit in that case.

If you expect to earn more next financial year, it may be to your advantage to delay any tax-deductible payments until next financial year. The financial benefit

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## Contact Us

Welcome to Collison Accounting's client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us.

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## Also in this issue:

Changes for the 2013 tax return ..... 2
Are you eligible for a $300 deduction? ..... 4
Are you able to boost your GST credit claims? ..... 6
Guide to family business succession planning ..... 8

## Last-minute individual tax planning tactics (cont)

of deductions could be greater in this case. Your personal circumstances will dictate whether these measures are appropriate.

It's probably leaving it a bit late to adopt this strategy now, but a tactic that can take advantage of this sort of timing play is to place money into a term deposit that matures after June 30, where interest will accrue to you in the next tax year (perhaps one to keep in mind for later years, should circumstances and tax regimes suit).

### Use the CGT rules to your advantage

If you have made and crystallised any capital gain from your investments this financial year (which will be added to your assessable income), think about selling any investments on which you have made a loss before June 30. Doing so means the gains you made on your successful investments can be offset against the losses from the less successful ones, reducing your overall taxable income.

When you are making a large capital gain toward the end of an income year, knowing which year the gain will be attributed to is a great tax planning advantage.

Of course, tread carefully and don't let mere tax drive your decisions – check with this office to determine whether this strategy will suit your circumstances.

### Need the teeth fixed or new glasses?

If you can get a quick appointment, why not have a (possibly expensive) medical procedure completed before June 30 and have more to put towards qualifying for the Medical Expenses Offset? The offset is means tested, but if you qualify many medical expenses are included, as well as some nursing home or hostel costs (but sorry, no nips or tucks).

In the latest federal budget the government has proposed that this measure will be phased out, possibly from as early as July 2014, depending upon circumstances. Bear this in mind if you are considering medical and dental procedures.

### Final reminders

You can claim up to $300 of work-related expenses without receipts, provided the claims are for outgoings related to earning assessable income.

You will recognise if any of the above tax tips applies to your circumstances, but nobody is better informed as to what is appropriate, or indeed allowable, than your tax agent (and don't forget, any tax agent fee is an allowable deduction in the year it is paid provided you keep the invoice).

Every individual taxpayer is required to lodge their return before October 31, but tax professionals such as this office are generally given more time to lodge, which can be a handy extension to a payment deadline. Of course, if you're sure you are going to get a refund, it's no use delaying. In these cases, it is worth getting all your information to this office as soon as you can after June 30. ■

# Changes for the 2013 tax return

The buzz generated by the Federal Budget may have come and gone, but it is important to remember that there are several changes to the tax laws that will affect your business's 2012-13 income tax return, as well as have an impact on subsequent years.

### Increase to the compulsory superannuation guarantee rate from 9% to 9.25%

From July 1, 2013 (the 2013-14 income tax year), you will need to increase the rate you use to work out the super guarantee payments you make for your employees from 9% to 9.25%. What you need to do is:

- update your payroll and accounting systems to apply the appropriate increase to the super guarantee rate
- continue to increase the rate you use to work out the super guarantee payments you make for your employees each year until July 1, 2019 (refer to the table on the following page), and
- if you have 19 or fewer employees, consider using the Small Business Superannuation Clearing House to help you meet your super guarantee obligations.

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The table below details the gradual increase to the super guarantee rate over a period of seven years:

| Year | Rate |
|---|---|
| Current rate | 9.00% |
| July 1, 2013 (2014 income tax year) | 9.25% |
| July 1, 2014 (2015 income tax year) | 9.50% |
| July 1, 2015 (2016 income tax year) | 10.00% |
| July 1, 2016 (2017 income tax year) | 10.50% |
| July 1, 2017 (2018 income tax year) | 11.00% |
| July 1, 2018 (2019 income tax year) | 11.50% |
| July 1, 2019 onwards (2020 income tax year onwards) | 12.00% |

## Removal of existing upper age limit

From July 1, 2013, as a result of the removal of the existing upper age limit for super guarantee payments, you must make super guarantee payments for employees 70 years and older – potentially a big change as more and more employees delay their retirement.

On the other hand, this offers flexibility for employees. As long as an employee is working and meets any other pre-existing conditions they will be entitled to the superannuation guarantee no matter how old they are.

## "MySuper" commences

Superannuation funds will begin offering cheap, simple and easily accessible "MySuper" products from July 1, 2013 – replacing default super funds from January 1, 2014. The ATO has advised employers to contact their default fund now to discuss the changes in product offerings for employees.

It is expected however that most existing default superannuation funds will offer a MySuper product – meaning employers will not have to make any change to the payment of the super guarantee contributions.

## Change to fuel tax credit rates

Changes will commence from July 1, 2013 in regards to the fuel tax credit rates. You may be affected by:

- some rate changes due to increased carbon charge amounts
- rate changes for transport and non-transport gaseous fuels, and
- a possible rate change for fuels used in heavy vehicles for travelling on public roads.

When you calculate your fuel tax credit claim, you need to use the rate that applied when you acquired the fuel. However, for fuel used in heavy vehicles for travelling on a public road, you need to use the rate in effect at the beginning of the tax period covered by your business activity statement (BAS). You will continue to claim your fuel tax credits on your BAS.

In addition, rates for some fuels are changing for entities declared by the Clean Energy Regulator to be a designated opt-in person under the opt-in scheme.

## Keep ABR details up-to-date

On another note, the Australian Business Register (ABR) is reviewing and cancelling Australian business numbers (ABNs) where records indicate holders are not conducting an enterprise, and are therefore not entitled to hold an ABN.

To ensure your ABN is not incorrectly cancelled, check with this office that your ABR details are up-to-date. If your ABN is cancelled, your AUSkey and registration for the following will also be removed:

- goods and services tax (GST)
- luxury car tax
- wine equalisation tax, and
- fuel tax credits.

Similarly, once your ABN has been cancelled, you will receive a letter providing the reason and your review rights. If you do not agree with the cancellation of your ABN, you can object – and if you can show that you are indeed entitled to an ABN, it can be reinstated.

In addition to the ABN cancellation review, the ABR will also be contacting existing ABN holders to remind them of the requirement to update their records. If you are an ABN holder, you are legally required to notify the ATO of changes to your registration details within 28 days. Call us if you need guidance.

## Changes to personal income tax rates

In the 2012-13 income tax year, the tax-free threshold increased from $6,000 to $18,200. This means that if you earn less than the $20,542* you may not have to pay any tax, although you may still have to lodge a tax return.

Resident Australian companies (except not-for-profit companies) such as partnerships, trusts and super funds are required to file tax returns regardless of their incomes.

## Changes to the low-income tax offset (LITO)

The LITO reduces the amount of income tax payable on your taxable income. The maximum LITO of up to $445 in the 2012-13 income tax year (down from the

*This figure is calculated by determining the highest taxable income that will still result in nil tax payable when taking into account the new low income tax offset of $445.

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$1,500 in the 2011-12 income tax year) applies to individuals who earn an income of up to $37,000.

A reduced portion of the LITO is still able to be claimed if the individual taxpayer earns between $37,001 and $66,667 in taxable income. The LITO reduces by 1.5 cents for each dollar of additional taxable income over $37,000.

## Immediate write-off changes

From the 2012-13 income year, small businesses can:

- immediately write-off assets valued at less than $6,500 (up from $1,000 in the 2011-12 income tax year) used in the business, for example photocopiers, laptops, fridges and desks in the income year in which they start to use the asset or have it installed ready for use, for a taxable purpose in the business
- allocate depreciating assets with a cost of $6,500 or more to the general small business pool to be depreciated at a rate of 15% in the year of allocation and 30% in other years irrespective of the effective life of the asset
- immediately write-off up to $5,000 of the cost of a motor vehicle. This applies to motor vehicles costing $6,500 or more in the income year in which they start to use the motor vehicle, after allocating a motor vehicle to the general small business pool. The remaining value is depreciated through the general small business pool at a rate of 15% in the first year and 30% in later years.

## Reporting of contractor payments for building and construction industry

A new reporting obligation from the 2012-13 income tax year requires all businesses in the building and construction industry to report the total payments they make to each contractor. The definition of building and construction services is broad (consult this office for a more exhaustive list) but can include alterations, demolitions, design, erection, excavation, installation and maintenance. The taxable payments annual report is due on August 25 for businesses that enlist a tax agent – a concessional lodgement arrangement is available for this year only.

For more information on the changes and what their ramifications are in regards to your business, consult this office. ■

# Am I eligible for the $300 deduction?

Did you know that an immediate deduction for depreciable assets costing $300 or less is available to certain taxpayers? This deduction is for individual taxpayers who are earning non-business income, such as salary and wage earners as well as investors.




To be entitled to the immediate deduction, four eligibility tests must be fulfilled by a taxpayer:

## Test 1: The cost of the depreciating asset is $300 or less

A taxpayer under this test can claim an immediate deduction for the cost of a depreciating asset if the "cost" does not exceed $300.

For taxpayers that cannot claim a GST input tax credit, the cost of the asset includes the amount of GST included in the purchase price.

If the asset is held by the taxpayer jointly with others, then their interest in the asset is treated as the relevant depreciating asset. If the cost of their interest in the asset is $300 or less, then they can claim the immediate deduction, even though the depreciating asset costs more than $300.

***Example***

*Peter, Clem and David jointly own a rental property in the proportions of 50%, 25% and 25%. They purchase a fridge to replace an existing one damaged by tenants. Based on their respective interests, they contribute $400, $200 and $200 to acquire the fridge. Clem and David can claim an immediate deduction because the cost of their interest does not exceed $300 but Peter can't.*

*Continued on page 5*➔

## Test 2: You use the asset mainly for the purpose of producing assessable income that is not income from carrying on a business

This test means that taxpayers who use the asset in a business which they carry on would not be entitled to an immediate deduction. Salary and wage earners and investors deriving "non-business" income would be typically eligible instead.

Examples of assets typically used to produce non-business income include:

- a briefcase purchased by an employee
- tools of trade used by an employee apprentice
- freestanding furniture purchased by a landlord
- a calculator used to manage an investment portfolio.

To claim the immediate deduction, a taxpayer must use the depreciating asset more than 50% of the time to produce non-business assessable income. Further, if the taxpayer does not use the asset wholly to produce assessable income during the income year, their deduction is reduced to the extent that it is not used for that purpose.

***Example***

*Rob buys a calculator for $150, which he uses 40% of the time for business and 60% of the time for a share portfolio. As it is used more than 50% for producing non-business income, he can claim an immediate deduction. If Rob used his calculator 40% of the time for private purposes (not business), his deduction would be reduced by 40% to reflect his private use.*

## Test 3: The asset is not part of a set of assets that you start to hold during the income year that costs more than $300

It is necessary to determine on a case-by-case basis if items form a set, which generally is when they are:

- interdependent of each other
- marketed as a set, or
- designed and intended to be used together.

***Example where an asset is part of a set***

*Louise, a sales manager, hears about a series of six progressive learning CDs. They are marketed as a set and are designed to be used together. However, the six CDs cost $360. Louise purchases the CDs individually for $60 each and buys one each week for six weeks in the same income year.*

***Conclusion:*** *Although the cost of each CD is less than $300, Louise cannot claim an immediate deduction because they are a set costing more than $300.*

***Example where asset is not part of a set***

*Susan, an employee, buys a range of tools for her toolkit for work – comprising a spanner, a box set of screwdrivers and a hammer. Each item costs $300 or less.*

***Conclusion:*** *While these tools add to a toolkit, they are not a set. It would make no difference if Susan bought each at the same time from the same supplier. An immediate deduction is available for all the items, including the screwdrivers. Despite these being used as a set, the deduction is available because each item's cost is less than $300.*

## Test 4: The asset is not one of a number of identical or substantially identical assets that you start to hold during an income year that together costs more than $300

Taxpayers under this test are required to determine whether the asset is "identical" or "substantially identical" (see table) to other assets that they acquire in the same income year and, if so, whether the total cost of the assets is more than $300.

| | |
|---|---|
| **Identical items** | Items that are the same in all respects |
| **Substantially identical items** | Items that are the same in most respects even though there may be some incidental differences such as colour, shape, function, texture, composition, brand and design. |

***Example of identical/substantially identical assets***

*Benjamin buys eight cane chairs for his rental property's patio. They are the same except for their colour – four are beige and four are green. Each chair costs $120.*

***Conclusion:*** *Benjamin cannot claim an immediate deduction for the cost of each individual chair because the chairs are "substantially identical" (with the only differences being their colour) and their total cost exceeds $300.*

***Example of not identical/substantially identical***

*Lauren buys a canvas chair, a high back wooden chair, and a leather executive chair.*

***Conclusion:*** *While these are all chairs, they are not "identical" or "substantially identical". The cost of each of these chairs can be claimed as an immediate deduction if it is $300 or less.*

Consult this office for more information on whether you can claim the immediate $300 deduction. If you are ineligible, we can assist in maximising the deduction for depreciable assets that you have purchased that are used to earn income. ■

# Are you able to boost your GST credit claims?

The goods and services tax (GST) costs businesses money in two ways. The most obvious is the tax levied on a business's goods and services, but there is a second, more subtle, cost — the professional fees, time and other administrative costs associated with GST.



Most businesses focus on reducing the costs of complying with this tax, however many may be overlooking opportunities to reduce the GST levied for certain businesses.

From time to time, politicians may hint via mainstream media that a change to the GST credits that a business can claim may be on the cards — one of these changes could be the ability to claim credits against expenses relating to income for "financial supplies".

The general rule in this area of tax law is that you cannot claim a GST credit for expenses if they relate to income that is not subject to GST itself. One of the exceptions to this rule is for "financial supplies", subject to certain conditions.

Even though your business may not be a financial institution, it is still possible for you to make a financial supply. For example, if you provide credit to customers so they can make a purchase, and charge some interest on that credit, this is a financial supply.

The ATO lists examples of financial supplies as the following:

- lending or borrowing money
- providing your customers with goods on credit for a fee
- creating, maintaining and closing your customer's bank account
- life insurance
- dealing in
  - debt
  - equity
  - unit trusts
  - partnership interests, and
  - futures contracts.

Being input taxed means that you don't pay GST on any financial supplies made, and generally can't claim GST credits for the tax that is included in the cost of anything you buy to make those supplies. However, with regard to the above-mentioned financial supplies, there are four exceptions.

A business can claim GST credits for the tax paid on relevant purchases if any of the following applies:

- you do not exceed the financial acquisitions threshold (see below)
- you use the purchase to make a financial supply through a business or a part of a business that you carry on outside Australia
- your purchase relates to a borrowing you make, which in turn you use for making sales that are not input taxed (this does not include a borrowing through a deposit account you make on or after July 1, 2012, if you are an Australian authorised deposit taking institution, such as a bank, building society or credit union)
- your purchase is a "reduced credit acquisition" that you use to make a financial supply (which generally gives rise to a 75% claim).

Ask this office if you require further explanation of any of these exceptions.

The financial acquisitions threshold (beyond which GST credits cannot be claimed) is a double-barrelled affair, in that it can be breached by either of two tests. For the relevant 12-month period, if the GST credits you *could* claim for financial supplies are more than 10% of the *total amount* of GST credits for all purchases you have made (including financial acquisitions), you will have exceeded the threshold. You will also go over the threshold if GST credits from financial supplies are more than $150,000 for the year (or $12,500 a month).

This last threshold has been pegged at $150,000 only since the start of the 2012-13 financial year (it was previously $50,000, and was set when GST was introduced in 2000) — which means that a business's capacity to make such claims (under this part of the double-barrell threshold) has increased threefold.

The subsequently available credits will vary depending on the particular business activities of an enterprise — but every little bit helps, as GST credits for financial supplies can build up over a year.

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## How it works

By way of example, let's look at Steve, who earns income from two businesses, one of which is share trading. The share trades he makes are "financial supplies" and therefore input taxed. This means Steve is not required to register for GST for this business income. However, he is registered due to his other enterprise.

The annual GST credits relating to expenses from share trading activities (for say, brokerage and relevant research publications) is $8,000 and the remainder of GST credits he can claim from his retail clothing store is $90,000. The credits relating to financial supplies therefore represents 8% of total GST credits claimed ($8,000 ÷ $98,000). This means Steve passes both tests for the financial acquisitions threshold and can therefore claim the GST credits relating to the share activities.

Remember that the test for the financial acquisition threshold are that the GST credits are:

- equal to or less than $150,000 of GST credits from financial supplies claimed throughout the year (so a monthly limit of $12,500)
- equal to or less than 10% of the total GST credits you could claim for all purchases.

The test applies to the current month and the previous 11 months. ■

# A guide on family business succession planning

While it might be unsavoury and tough to think about, it is inevitable that you will leave your business someday. Whether you decide to sell up, retire or leave due to health reasons, it is important that you prepare yourself for that eventuality.

A recent nationwide survey revealed that more than 40% of family businesses are looking to transfer their wealth and operations to other hands in the next five years. Are the owners of those family businesses thinking about succession planning?

Findings from the survey suggest not. In an overwhelming majority, 93% of the survey's respondents intend to transfer their business wealth within the family, but only 39% of respondents have a complete succession plan that nominates a chief executive successor. Other research shows that more than 65% of family businesses fail in the hands of the second generation and another 20% fail when the business passes to the third generation.

The most common causes of business failure are:

- a lack of management skills, and inadequate consideration and planning for the ownership transition
- failure of parents to "let go"
- the problem of the "insider and the outsider" which relates to a failure of the head of the business to share knowledge and decision-making with all relevant parties
- the "disconnected shareholder" – that is, a dissatisfied family member who is not part of the decision-making hierarchy but constantly undermines authority and management, and
- "fighting over the spoils" when family members look critically at what one is receiving from the business and comparing it to what another receives.

These worrying indicators, compounded by a baby boomer generation fast approaching retirement, have prompted us to provide this to-do checklist for family businesses considering succession planning in the next few years.

## Decide on who a successor should be

When choosing a successor from your family, think about what is best for the future of the business. Do not let emotions cloud your judgement and be aware of the potential problems when choosing a family successor. Choosing just one may cause conflict if others are interested in taking over, but if you appoint more than one successor there may be no clear leader and constant disputes.

Evaluate your situation by ensuring your successor has both the necessary skills and passion to take over the business – children should earn their right to be at the helm of a business, rather than having it handed to them on a silver platter. A board of non-family members or an adviser may help provide an objective opinion.

Multi-generational family businesses often succeed when the decision to remain in business together is made by the children themselves, rather than the parents. Parents should continuously include their children in the decision-making process about succession and leave them to make their own decisions about their future prospects at a more appropriate time.

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## Train the successor

Owners of family businesses often make the fatal mistake of bequeathing the business to their children or siblings without much prior notice or previous training. Succession planning is a process, not a one-off incident – start teaching your heir about the business's operations and finances because it takes years to get up-to-speed with everything.

Identify areas of expertise that are fundamental to your business and determine if your successor fits the bill. Conduct regular appraisals, give performance feedback and assign higher level projects to prepare them for what lies ahead.

Transfer of knowledge is critical to succession planning. Successors need to:

- learn about business through formal education and working outside the business
- learn about the family business, in particular the family network and network management skills, and
- learn to lead the family business by codifying knowledge and learning the tacit knowledge, training in operational and financial management, and thinking strategically in the business.

## Work on a succession plan

A complete succession plan has to incorporate the core values of your business and should:

- answer questions about who will be in charge, how much of a stake they will acquire and at what cost
- include a shareholder's agreement
- include an estate plan
- include a timeline for the transfer of power
- be known to all parties
- include a valuation of the business — such valuations require professional skills, given the intertwined nature of the business, the family, and the unique family factors that drive value
- include a financial security plan for the founder, and
- be in written form.

Also think about financial and legal issues such as:

- are you planning to gift or sell the business to your family?
- do you need to set up a trust as part of the succession?
- would you prefer to receive a regular dividend from the business or a lump sum?
- are there any legal or industry requirements to meet in relation to ownership of important positions?
- if you sell your business to a family member, are you giving them a loan or are they acquiring a loan from a financial institution to pay for the business?

Identify risks and common goals, potential conflicts and enlist the services of this office if necessary. Also consider if you need to transfer both ownership and management, if ownership will be equal among family members and if the management team should include non-family members.

You may have to continually revisit your plan, review and update it to reflect changes in business value, market conditions, your own health as well as the abilities and passion of the successor you intend to pass it on to. Regularly review your plans with family to ensure they are aware of, and happy with the development of the business.

## Show your faith

If you do not instil confidence in the proposed successor and demonstrate to employees that you trust this person to take over your business and keep it thriving, your business is not likely to succeed in the aftermath of your departure. Ensure everyone knows who your worthy choice of a successor is and how excited you are for them to develop the business into a new frontier. Do not belittle the successor or force them to mimic your management style or business values.

## Consider external options

If there is no one suitable within your business or family, consider looking externally too. There is no benefit in having an uninterested daughter or an incapable son at the helm. Look for candidates that have strong talents, skills that will complement the business, and a resourceful and enthusiastic approach towards work. If you end up selling or passing on your business to an outsider, you may be able to negotiate a provisional consulting and training period where you remain in the business to ensure a smooth transition.

The sooner a succession plan is put together, the better, but this is by no means an exhaustive list of all the factors you have to consider. Consult this office for professional advice before selling or passing on your business to your successor. ■