TAX MATTERS

Tax strategies for your and your business



Collison Accounting Pty Ltd

Small business depreciation rules

The Government recently released exposure draft legislation proposing to make several tax law amendments in relation to depreciation rules for small business. The proposed amendments will apply to small businesses that have an annual turnover of less than $2 million for an income year from the 2012 - 2013 income tax year.

Whilst these changes sound positive and will undoubtedly stimulate small business investment, the amendments for the instant asset write-off and the simplified depreciation pooling arrangements are subject to the passing of the Minerals Resource Rent Tax Bill (Mining Tax) - which is yet to be passed, and the Clean Energy Bill 2011 (Carbon Tax) - which is now law.

Instant write-off of an asset

Under the proposed amendments, the small business asset write-off threshold will be increased from $1,000 to $6,500. This means small business could use the capital allowance provisions to write off depreciating assets that cost less than $6,500 in the income year in which the asset is first used, or installed and ready for use. Small businesses may also be able to claim an immediate tax deduction for the addition to existing assets that cost less than $6,500, provided the addition also costs less than $6,500.

Depreciation pooling arrangements

Small businesses that acquire depreciating assets that cost $6,500 or more, will be allowed to allocate these assets into a general pool and depreciate at 15 percent in the year of allocation. In subsequent years, the depreciation rate is increased to 30 percent.

Motor vehicle deductions

The proposed amendments will refine tax law, allowing small businesses to claim an accelerated initial deduction for new and second-hand motor vehicles acquired from the 2012 - 2013 income year.

Under the changes, a small business that uses the capital allowance provisions will be able to claim an immediate deduction of up to $5,000 for a motor vehicle in the year in which it is first used or available for use. The remainder of the purchase price would be allocated and depreciated as part of the general pool. The proposed amendments will implement the Government's proposal announced in the 2011 - 2012 Budget.

Entrepreneurs' tax offset

The amendments propose to abolish the entrepreneurs' tax offset.

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Contributing to superannuation

There are limits on the amount you can contribute to super each financial year that are concessionally taxed. There are two types of contributions and the limits are different for both. These are referred to as concessional and non-concessional contributions.

Any super contribution over the cap amount is subject to additional tax. If you are looking at making additional contributions this year, it is important to be aware of these limits.

Concessional contributions include:

- the 9% compulsory super guarantee made by employers;
- additional voluntary super contributions made by employers;
- amounts that are salary sacrificed; and
- personal contributions that are allowed as a personal super tax deduction.

The 2011 – 2012 concessional contributions cap for those under 50 years of age is $25,000 and $50,000 for people 50 years of age or over.

Non-concessional contributions include:

- non-deductible personal contributions made by individuals from after-tax income;
- contributions made by their partners;
- any contributions that exceed the concessional contribution cap.

The 2011 - 2012 non-concessional contributions cap of $150,000 applies to all.



Late returns

During December 2011, the ATO issued default assessment warning letters a number of taxpayers with overdue income tax returns. These have been sent where the ATO has evidence that these taxpayers have received taxable income in years that taxation returns have not been lodged.

These letters are titled 'default assessment warning' and are part of an ongoing plan by the ATO to address non-lodgment. The ATO has indicated that if the overdue returns are not lodged by the date specified, it will proceed by issuing default assessments to these taxpayers. The assessments will be based on the estimated taxable income included in the letter.

It is important that prompt action be taken by anyone receiving a default assessment as the penalties can be severe. Taxpayers can incur 'failure to lodge on time' penalties, and administrative penalties of 75% of the tax related liability from the default assessment. This is calculated after taking into account any pay as you go (PAYG) credit and other available tax credits.



TAX FOCUS - GST DEBT

Taxpayers that are finding it difficult to meet their GST obligations on time should be contacting the ATO as early as possible.

The ATO are in the process of conducting a range of activities aimed at addressing debt including:

- focusing on taxpayers who have a GST debt that is older than two years;
- taking firmer action with businesses that are not viable; and
- monitoring possible phoenix activity, such as the engineering of serial insolvencies.

The ATO will allow a business is suffering debt issues to enter into arrangements, allowing it to pay by instalments. It is essential however, that lodgements are made by the due date, even if it is not possible to make a payment by the due date.

Over recent years, the ATO have worked with taxpayers having difficulty paying a debt. The commercial approach has been effective, with the ATO working to understand a taxpayers individual circumstances, and assisting where a taxpayer is attempting to resolve the issue.

The ATO will take action against those who do not work with them to make arrangements, or who continue to avoid meeting their obligations. Some of these actions could include court action or a garnishee.

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