YEAR END STRATEGIES

THE 2016/2017 TAX GUIDE FOR YOU AND YOUR BUSINESS

IN THIS GUIDE:

- Staying on top of your records
- CGT relief provisions for SMSFs
- 2017 year end tax tips
- Super reforms on the way
- And more

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 2016-17 and start planning fresh for next year.

SHEILA PONTING & CO

ACCOUNTANTS + TAX AGENTS

Reducing capital gains tax

Preparation is critical to minimising your capital gains tax at the end of the financial year.

Capital gains tax (CGT) is the tax you pay on any capital gain made when you sell or otherwise dispose of an asset. CGT forms part of an individual's income tax; it is not a separate tax.

Some examples of a CGT event include selling or giving away an asset, the loss or destruction of an asset, shares which are cancelled, surrendered or redeemed worthless, and so on.

Here are five strategies to help minimise your CGT bill:

Utilise the small business CGT concessions

Small business entities may be eligible to use a number of CGT concessions, in addition to other CGT exemptions, roll-overs and concessions which are available more widely. Small businesses can apply as many concessions as they are entitled to until the capital gain is reduced to nil.

Hold an asset for at least 12 months

Individuals and small businesses (excluding companies) can generally discount a capital gain by 50 per cent if they hold the asset for more than 12 months.

Offset a capital loss against a capital gain

Selling poor performing assets that will yield a capital loss before 30 June allows individuals to use the capital loss to offset their tax liability from any capital gains realised this financial year.

Defer asset sales

If you expect to make a capital gain on the disposal of an asset, consider deferring the sale until after 30 June. This strategy is particularly beneficial for those who expect to be earning a lower taxable income in the next financial year, for example, individuals who plan to retire or take unpaid leave.

Carry forward capital losses

Capital losses from previous years can be carried forward to offset capital gains in the current financial year, thereby reducing CGT liability.

SHEILA PONTING & CO

Sheila Ponting & Co is a CPA Practice

Liability limited by a scheme approved under Professional Standards Legislation.

1 FIONA STREET

BIGGERA WATERS Q 4216

TEL (07) 5500 5855

FAX (07) 5500 5866

EMAIL
reception@sheilaponting.com.au

WEBSITE
www.sheilaponting.com.au

PRINCIPAL
Sheila Ponting (FCPA)

Tax Returns
Financial Accounts
Business Structure and Set-up
Self Managed Super Funds
Bookkeeping
BAS Prep and Lodgment

Claiming depreciation on investment property

Rental property investors have access to a range of tax strategies. One such strategy, which is often underutilised, is claiming depreciation as a tax deduction.

Property expenses, such as depreciation and capital works expenditure, can be deducted over a number years, adding to a significant return for property investors come tax time.

Property investors can utilise the services of a qualified quantity surveyor to inspect their property and prepare a depreciation schedule to ensure they are maximising these deductions. In addition, the cost of a depreciation schedule is tax deductible.

A quantity surveyor will focus on two main elements in a depreciation schedule:

Depreciating assets

Rental property investors can claim a deduction for the decline in value of certain items (depreciating assets) acquired as part of the purchase of the property or subsequently purchased for the property.

The ATO considers a depreciating asset as an asset that has a limited effective life and can reasonably be expected to decline in value over the time it is used, for example, freestanding furniture, stoves, washing machines and television sets.

For assets costing $300 or less, investors can claim an immediate deduction for the entire cost. However, this deduction cannot be claimed if the asset is one of a set of assets that together cost more than $300. Depreciating assets valued at less than $1,000 can be grouped in a low-value asset pool and depreciated together.

Capital works deductions

If you own a residential rental property which was built after 17 July 1985, you may be able to claim capital works deductions for construction costs.

Capital works deductions are income tax deductions that can be claimed for expenses such as:

- building construction costs - for example, adding a room, garage, patio or pergola
- the cost of altering a building - i.e., removing or adding an internal wall
- the cost of capital improvements to the surrounding property.

These deductions are usually spread over a period of 40 years. A deduction may also be available for structural improvements, such as sealed driveways and retaining walls, if work began after 26 February 1992.

Depending on the date the capital works began, the deduction rate is 2.5 per cent or 4 per cent (adjusted for part-year claims). Capital works deductions can only be claimed for the period in which the property is rented or is available for rent and cannot exceed the construction expenditure.

Staying on top of your records

A good record keeping system is essential for small business owners.

Staying on top of your records helps to manage cash flow and prepare your business activity statements (BAS) and tax returns more easily.

In addition to keeping basic legal records, such as banking, expense and sales records; businesses should keep the following records to maximise their tax return at the end of the financial year:

Employee and contractor records

You will need to keep details of any tax file number (TFN) declarations and withholding declaration forms; wages, allowances and other payments made to workers; superannuation contributions; fringe benefits; tax deducted and employment contracts.

Depreciation

A worksheet should be kept to calculate the decreasing value of your assets (depreciating assets). Be sure to include any relevant details such as original purchase agreements or tax invoices etc.

Capital gains tax (CGT) records

Records must be kept if you have acquired or disposed of an asset. You must keep records of every transaction, event or circumstance that may be relevant to working out whether you have made a capital gain or loss from a CGT event.

CGT relief provisions for SMSFs

Self-managed super funds can access capital gains tax (CGT) relief to provide temporary relief from certain capital gains arising as a result of trustees complying with the super reforms commencing on 1 July 2017.

The CGT relief provisions have been made available to preserve the income tax exemption for certain, accrued capital gains which would have been exempt if the underlying CGT assets had been disposed of before a member transfers to comply with the transfer balance cap and before the changed treatment of TRIS's.

Transitional CGT relief is available for certain CGT assets held by a complying SMSF at all times between the start of 9 November 2016, to 'just before' 1 July 2017. However, the CGT assets eligible for the relief depend on whether the fund uses the segregated or proportionate method for the 2016-17 income year.

Trustees need to be aware that CGT relief is not automatic - it must be elected by a trustee on an asset-by-asset basis. SMSF trustees will need to review their fund's circumstances and determine if CGT relief is available and appropriate. If trustees do decide to obtain CGT relief, trustees must advise the ATO in the approved form on, or before, the day they are required to lodge their fund's 2016-17 income tax return.

As the decision is irrevocable, careful planning is required. Trustees should contact our office if they are unsure if CGT relief is suitable for their circumstances.

Tax tips for property investors

The end of the financial year is a great time for property investors to take the opportunity to minimise their tax obligations.

Here are five tax tips to consider this tax time:

Claim travel expenses: The cost of travelling to inspect a property, carry out maintenance, undertake repairs or collect the rent can be claimed as a tax deduction.

Apportion expenses: If your rental property is only available for rent for part of the year; only part of the property is available to rent; or the property is rented at non-commercial rates, you must apportion your expenses to determine the deductible amounts.

PAYG variation: A PAYG variation allows investors to vary income tax withholding to access their end-of-year tax refund throughout the year rather than as a lump sum. This can help investors meet their cash flow demands.

Interest: Investors can claim the interest on the loan used to purchase a rental property or depreciating asset for the rental property; make renovations or repairs to the property; or used to purchase land to build a rental property. Pre-paying interest (up to 12 months in advance) brings forward deductions to the current income year.

Prepaid expenses: Consider pre-paying any expenditure, such as repairs, rates and levies, to maximise the current financial year's deductions. Remember, initial repairs to an established property are not deductible.

2017 year end tax tips

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

To obtain a bad debt deduction, a debt must not be merely doubtful and must be written off as bad during the year of income in which the deduction is claimed. The debt must have been previously included as assessable income.

Trust resolutions

Trustees are required to make trust resolutions before 30 June in relation to how trust income will be distributed among beneficiaries.

Prepaid expenses

For small businesses, you can bring forward operating expenses, such as rent, insurance, repairs and office supplies that cover a period of no more than 12 months.

Superannuation strategies

Review your super strategies before year end to maximise your contribution caps, roll-over capital gains and review your eligibility for the spouse contribution tax offset and government co-contributions.

Write-off obsolete inventory

Slow moving, damaged and obsolete stock must be written off prior to 30 June to claim a tax deduction.

Claim self-education expenses

Self-education expenses, such as course fees, textbooks, stationery, etc. are tax deductible if your study is work-related or if you receive a taxable bonded scholarship.

Small business CGT concessions

Capital gains tax (CGT) concessions may apply to small businesses when an active asset is disposed of. There are four types of concessions; small businesses can apply as many concessions they are entitled to until the capital gain is reduced to nil.

Employer super contributions

Employers must pay all superannuation guarantee contributions for employees before 30 June to receive a tax deduction in 2017.

PAYG income tax instalments

Small businesses should review their PAYG income tax instalments and notify the ATO if expected profit will be higher or lower than previous financial years.

Home office expenses

Individuals operating businesses from home may be entitled to claim deductions for a number of expenses including room utilities, business phone costs, occupancy, and motor vehicle expenses.

CGT roll-over relief

After 1 July 2016, small business owners have greater flexibility in changing the legal structure of their business. Small businesses can defer gains or losses that would otherwise be realised when business assets are transferred from one entity to another.

Easier GST reporting for food retailers

Many small food retailers buy and sell products that are both taxable and GST-free. Depending on the point-of-sale equipment used, identifying and recording these sales can be difficult for business owners.

The ATO has introduced a series of simplified accounting methods (SAMs) to make it easier to account for GST and work out the amount of GST that is liable at the end of each tax period.

Business owners can choose from five SAMs. The SAM you choose will depend on your business' turnover, the nature of your business and the nature of your point-of-sale equipment (except for the purchases snapshot method).

These methods help you work out the information you need to correctly complete the GST section of your activity statement. However, they can only be applied to sales and purchases of trading stock. If you decide to use a SAM, you will still need to separately consider other sales and expenses when you complete your activity statement.

There are two broad categories of SAMs that apply:

Businesses with a SAM turnover threshold of $2 million or less

Businesses in this category have three choices:

- Business norms: You apply the standard percentages to your sales and purchases.
- Stock purchases: You take a sample of purchases and use this sample.
- Snapshot: You take a snapshot of your sales and purchases and use this.

Business with a GST turnover of $2 million or less

Businesses in this category have two choices:

- Sales percentage: You work out what percentage of GST-free sales you made in a tax period and apply this to your purchases.
- Purchases snapshot: You take a snapshot of your purchases and use this to calculate your GST credits.

After electing to use a SAM, you cannot change your method of GST accounting in the first 12 months.

ATO targeting online selling

The Australian Tax Office is collecting data from financial institutions and online selling sites as part of their data matching programs for credit and debit cards and online selling.

The data will include:

- the total amount of credit and debit card payments businesses received
- online sellers who have sold at least $12,000 worth of goods or services

The ATO will match this data with information from income tax returns, activity statements and other ATO records to identify any discrepancies. Data matching helps the Tax Office to identify businesses that need help and those that may not be reporting all their income or meeting their registration, lodgment or payment obligations.

Business owners who think they might have made a mistake or left something out are urged to contact our office to correct your mistake, amend your return or make a voluntary disclosure. The ATO may reduce or even waive penalties if you make a disclosure before the Tax Office contacts you.

Super reforms on the way

The changes made to Australia's superannuation system announced in the 2016 Federal Budget will take effect from 1 July 2017.

The reforms have significantly changed the landscape for retirement savings, affecting both pre-retirees and retirees. Below is an overview of the new rules coming into play from 1 July 2017 onwards:

$1.6 million transfer balance cap

The introduction of a $1.6 million cap on the total amount that can be transferred into the tax-free retirement phase for account-based pensions. Those who currently hold more than $1.6 million in pension phase will need to reduce their balance prior to 1 July 2017.

Lowering of the concessional and non-concessional contribution caps

The cap on concessional (before-tax) contributions will be decreased from $30,000 (for those under the age of 50) or $35,000 (for those aged 50 years old and over) to the flat rate of $25,000 per year for all age groups.

The new annual cap for non-concessional (after-tax) contributions will be reduced from $180,000 to $100,000. This will remain available to individuals between 65 and 74 years old if they meet the work test. Individuals under the age of 65 will be able to bring-forward three years of contributions, i.e. $300,000.

Changes to transition to retirement income streams (TRIS)

Currently, where a member receives a TRIS, the fund receives tax-free earnings on the super assets that support it. The Government will remove the tax-exempt status of earnings from assets that support a TRIS. Earnings from assets supporting a TRIS will be taxed at 15 per cent regardless of the date the TRIS commenced. Members will also no longer be able to treat super income stream payments as lump sums for taxation purposes.

Spouse tax offset

The spouse's income threshold will be increased to $40,000 from 1 July 2017. The current 18 per cent tax offset of up to $540 will remain as is and will be available for any individual, whether married or de facto, contributing to a recipient spouse whose income is up to $37,000. The offset is gradually reduced for income above this level and completely phases out at income above $40,000.

This publication is for guidance only, and professional advice should be obtained before acting on any information contained herein. Neither the publishers nor the distributors can accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication. Publication date 12 April 2017.