PALFREYMAN
CHARTERED ACCOUNTANT
(02) 4990 3775

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Newsletter

WE UNDERSTAND LIFE IS ABOUT MORE THAN TAX.
WHY NOT LET US MAKE YOUR LIFE EASIER?

IN THIS ISSUE –YEAR END TAX PLANNING

Year- End Tax Planning for Business

What you need to consider…..

With 30 June fast approaching, it is worth considering your likely business taxable income, tax payable and any tax planning opportunities available to you.

We recommend that you consider the following:

- ⇒ Do you have any **"bad debts"** in your business? Consider writing them off before 30 June.
- ⇒ Review **trading stock** for obsolescence. Ensure a stock take is completed for 30 June 2018.
- ⇒ Make sure that all your **motor vehicle log books** are valid.
- ⇒ Consider delaying some client **sales invoices** until 1 July if cash flow allows.
- ⇒ If you are still depreciating any assets, review your **fixed asset schedule** for assets that can be scrapped.
- ⇒ If your **children worked in your business** then make sure you treat them as normal employees.
- ⇒ Ensure that your **business expenses are paid** where possible prior to 30 June.
- ⇒ **Purchase any <u>required</u> items of plant and equipment** before 30 June.
- ⇒ Consider **pre-paying expenses** (eg. rent, professional fees etc) and **purchasing consumable items** (eg. printer ink, oils etc) before 30 June.
- ⇒ Consider bringing forward planned **repairs and maintenance** to before June 30.
- ⇒ Ensure that you have recorded all your business expenses. Don't forget the following:
  - Motor vehicle travel in your private vehicle (laundry, collecting supplies etc)
  - Home office hours
  - Internet usage etc
- ⇒ Consider making a personal superannuation contribution.
- ⇒ If your spouse is on a relatively low income, consider making a contribution to their super.

Considering Repairs & Maintenance?

Remember that the ATO considers some "repairs" to be a capital improvement. These items may not be tax deductible in the current year and could be claimable over a number of years as depreciation. If you are planning to do major repairs, it is worth discussing this with us.

Bad Debts?

- ⇒ Write off any **'bad' debts** before 30 June.
- ⇒ To be deductible, you would need to have a record of the reason for the write-off at that time. This could be a formal minute or a written note explaining reasons.
- ⇒ If you would like an example minute forwarded to you, just contact us.

Paying Super?

Remember that superannuation is not deductible until physically paid and received by the Super Fund so try to pay your employees SGC by say 25 June if possible.

Purchasing plant & equipment?

- ✓ For a small business, purchasing equipment items costing under $20,000 can be an immediate tax deduction.
- ✓ If purchased before 30 June this brings forward your tax deduction.
- ✓ Remember that a tax deduction is not a refund. Your actual tax saving will depend on your marginal tax rate.
- ✓ For example, a purchase of a $10,000 machine may only result in a tax saving of $3,900 (depending on your tax rate).
- ✓ *Important note: In the recent Budget, it was announced that the $20,000 immediate writeoff will be extended until 30 June 2019.*

Using a car for business or work?

If you want to claim your car expenses under the log book method, then make sure that all your **motor vehicle log books** are valid. Remember that they must be less than 5 years old and cover at least 12 consecutive weeks. If you need information about this or would like us to review the format of your logbook then please do not hesitate to contact us.

Still depreciating assets?

Review your **fixed asset schedule** for assets that can be scrapped. Most small businesses will have written their assets off if they cost less than $20,000 or your "pool" of assets had a written down value of less than this. If you have any assets which haven't already been claimed in full, they will be included as a schedule in your last business tax return.

Do your children work in your business?

If your **children worked in your business** then make sure you have all the paper work you would have for a normal employee (TFN declaration etc) and kept proper records of their work. In an audit, the ATO may check that you have physically paid your children and that they were capable of the work they were "paid" for.

Year – End Tax Planning for Individuals

Individuals can be either running a business or earning a wage. The following tips may help to reduce your tax:

⇒ Superannuation is now a great tax planning opportunity as the rules have been relaxed.

⇒ Do you use your car to visit clients, collect supplies or carry bulky tools without any secure lockup facilities available at work? If so, your travel may be tax deductible.

⇒ If your spouse earns less than $37,000 you can get up to a $540 tax offset for contributing to their super.

⇒ If you work from home, you may be entitled to claim "home office" expenses. The easiest way to claim this is keeping a 4 week diary recording how many hours you spent working from home.

⇒ If you use your mobile for work, you can claim that work portion – you just need a detailed 4 week bill or a diary to calculate your work use.

⇒ Work related use of your internet can also be claimed but the ATO do require a 4 week diary as proof.

⇒ Donations to registered Deductible Gift Recipients such as the Salvation Army are tax deductible.

We often have clients ask whether the following items can be claimed in your tax return. These items are <u>never</u> tax deductible:

- × Normal home-to-work travel
- × Purchase of raffle tickets for a charity auction
- × Insurance paid via your super fund
- × Life insurance
- × School fees or childcare expenses
- × Medical expenses unless they relate to disability aids, attendant care or aged care

Considering Superannuation?

⇒ In previous years, most individuals could not claim a tax deduction for superannuation contributions unless they were carrying on a business. This changed on 1 July 2017.

⇒ There are tax advantages of contributing to super:
- Generally only 15% tax will be payable by your super fund.
- Your marginal tax rate could easily be 39% including medicare.

⇒ If you are in the 39% tax bracket, a $1,000 contribution could save you net tax of $240. If you are in the 47% bracket, you could save $320.

⇒ For 2018 the **limit of a tax deductible superannuation contribution is $25,000**. This includes all concessional contributions made on your behalf – both personal & employer contributions (if any). **You also need to meet the age and other necessary tests**.

⇒ To claim a tax deduction for a personal superannuation contribution you must advise your Super Fund in writing that you will be claiming a tax deduction for your contribution. The Super Fund should send you an acknowledgement letter before your 2018 tax return is submitted to the ATO for lodgment.

⇒ Making voluntary contributions to super can have tax advantages. However, your money is "locked away" until you meet a qualifying condition. It is always best to seek expert advice before making a super contribution.

Own a Rental Property?

The tax rules for claiming rental property expenses changed on 1 July. The following now applies:

You can claim:

- ✓ Interest on your mortgage.
- ✓ Property agent fees.
- ✓ Running costs such as council rates, water rates and insurance.
- ✓ Repairs for tenant damage and general wear and tear.

You can't claim:

- × Loan repayments – unless they are interest only.
- × Travel to your rental property (except in limited circumstances)
- × Initial repairs
- × Improvements to your property

The rules for depreciation have also changed. We encourage our rental property clients to contact us to discuss these changes.

Tax planning can be very complicated. Why not contact us on 02 4990 3775 or enquiries@palfreyman.com.au to discuss your individual circumstances?