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client alert

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1. Tax planning

There are many ways in which entities can defer income, maximise deductions and take advantage of other tax planning initiatives to manage their taxable incomes. Taxpayers should be aware that in order to maximise these opportunities, they need to start the year-end tax planning process early. Of course, those undertaking tax planning should be aware of the potential application of anti-avoidance provisions. However, if done correctly, tax planning can provide a number of tax savings for entities.

2. Deferring assessable income

- Income received in advance of services being provided is, generally, not assessable until the services are provided.
- Taxpayers who provide professional services may consider, in consultation with their clients, rendering accounts after 30 June in order to defer the income.
- A taxpayer is required to calculate the balancing adjustment amount resulting from the disposal of a depreciating asset. If the disposal of an asset will result in assessable income, a taxpayer may want to consider postponing the disposal to the following income year.
- Rollover relief may be available for balancing adjustments arising from an involuntary disposal of assets where replacement assets are acquired.

3. Maximising deductions

Business taxpayers

- Taxpayers should review all outstanding debts prior to year-end to determine whether there are any potential debtors who will be unable to pay their bills. Once a taxpayer has done everything in their power to seek repayment of the debt, the taxpayer could consider writing off the balance as bad debt.
- The entitlement of corporate tax entities to deductions in respect of prior year losses is subject to certain restrictions. An entity needs to satisfy the continuity of ownership test before deducting the prior year losses. If the continuity of ownership test is failed, the entity may still deduct the loss if it satisfies the same business test.
- A deduction may be available on the disposal of a depreciating asset if a taxpayer stops using it and expects never to use it again. Therefore, asset registers may need to be reviewed for any assets that fit this category.
- Small business entities are entitled to an outright deduction for the taxable purpose proportion of the adjustable value of a depreciating asset, subject to conditions.

Non-business taxpayers

- Non-business taxpayers are entitled to an immediate deduction for assets used predominantly to produce assessable income and that cost $300 or less, subject to conditions.
- The self-employed and other eligible persons are entitled to a deduction for personal superannuation contributions subject to meeting conditions such as the 10% rule.

4. Companies

- Companies should ensure that all dividends paid to shareholders during the relevant franking period (generally the income year) are franked to the same extent to avoid breaching the benchmark rule.
- Loans, payments and debts forgiven by private companies to their shareholders and associates

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may give rise to unfranked dividends that are assessable to the shareholders and their associates. Shareholders and entities should consider repaying loans and payments on time or have appropriate loan agreements in place.

- Companies should consider whether they have undertaken eligible research and development (R&D) activities that may be eligible for the R&D tax incentive.
- Companies may want to consider consolidating for tax purposes prior to year-end to reduce compliance costs and take advantage of tax opportunities available as a result of the consolidated group being treated as a single entity for tax purposes.

5. Trusts

- Taxpayers should review trust deeds to determine how trust income is defined. This may have an impact on the trustee's tax planning.
- Trustees should consider whether a family trust election (FTE) is required to ensure that any losses or bad debts incurred by the trust will be deductible and to ensure that franking credits will be available to beneficiaries.
- Taxpayers should avoid retaining income in a trust because it may be taxed in the hands of the trustee at the top marginal tax rate.

6. Capital gains tax

- A taxpayer may consider crystallising any unrealised capital gains and losses to improve their overall tax position for an income year.
- Eligible small business entities can access a range of concessions for a capital gain made on a CGT asset that has been used in a business, provided certain conditions are met.

7. Superannuation

- Individuals who wish to take advantage of the concessionally taxed superannuation environment but wish to stay under the relevant contributions caps should consider keeping track of contributions and avoid making last-minute contributions that would be allocated to the next financial year.
- For 2014–2015, the general concessional contributions cap is $30,000. For those who are aged 49 or over on 30 June for the previous income year, a higher $35,000 cap applies.
- For 2014–2015, the non-concessional contributions cap is $180,000. Individuals under 65 years may bring forward the non-concessional cap for the next two years (ie $540,000 over three years from 2014–2015).
- From 1 July 2013, excess concessional contributions tax has been abolished. Instead, excess concessional contributions are included in an individual's assessable income (and subject to an interest charge).
- From 1 July 2013, excess non-concessional contributions tax continues to apply where relevant, unless the option to withdraw excess contributions is exercised. Associated earnings will be included in the individual's assessable income (subject to a 15% tax offset).
- Individuals with salary-sacrifice superannuation arrangements may want to have early discussions with their employers to help ensure contributions are allocated to the correct financial year.
- From 2012–2013, individuals earning above $300,000 are subject to an additional 15% tax on concessional contributions. However, despite the extra 15% tax, there is still an effective tax concession of 15% (ie the top marginal rate less 30%) on their contributions up to the relevant cap.

8. Fringe benefits tax

- The four rates used in the statutory formula method for determining the taxable value of car fringe benefits have been replaced with a single statutory rate of 20% for fringe benefits.
- The first $1,000 of the aggregate of the taxable values of "in-house" fringe benefits (ie in-house expense payment, in-house property and in-house residual fringe benefits) provided to an employee during a year is exempt from FBT. However, the $1,000 reduction does not apply to an in-house benefit provided on or after 22 October 2012 under a salary packaging arrangement.

9. Individuals

- For the 2014–2015 income year, the general tax-free threshold available to Australian resident taxpayers is $18,200.
- Certain low income taxpayers are entitled to the low income offset. The maximum offset for 2014–2015 is $445.
- The medical expenses offset is being phased out and will no longer be available after 2018–2019. Transitional arrangements will allow taxpayers to claim the offset from the 2012–2013 income year until the end of the 2018–2019 income year, subject to limitations.

The private health insurance offset has been means tested since 1 July 2012. There are three private health insurance incentive tiers.

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