

## EOFY Tax Planning for Small Business – June 2020

### **Important Disclaimer**

Australian tax legislation contains specific anti-avoidance provisions which target schemes entered into with the dominant purpose of tax avoidance. It is essential that you consider your specific circumstances before proceeding with any tax planning ideas to ensure these rules do not apply. While legally minimising tax should always be a consideration, it should not be the main driver in any transaction.

The tax planning ideas presented to you today and contained in this summary are of general nature only and have been provided to assist you as business owners with some general ideas in relation to your tax affairs. The ideas should not be relied upon without seeking professional advice in relation to your own circumstances.

**Every business should review their business “state of affairs” in May or June each year.** This is important to enable you to perform prior year comparisons and budgeting, but also to determine early if you are going to have a “tax problem”. You can use some of the ideas below to address this but please speak to your Accountant before making any decisions.

### **Income timing – delay income from late in the year to the following financial year**

- Consider which financial year is better to recognise income – potentially delay invoicing.
- Review your debtors – write off any that are definitely bad debts. (Note this won't change tax position if you are reporting on a cash basis but it still will tidy up your accounts).

### **Bring forward expenses**

- Small businesses can prepay up to 12 months worth of some expenses – for example loan interest, rent, insurance (including income protection) and memberships prior to 30 June.
- Pay the June quarter superannuation guarantee contributions (SGC) for your staff prior to 30 June (must be received by fund before 30 June to be deductible).
- Pay any donations you plan to make in the near future prior to 30 June (ensure the donation is an endorsed gift recipient).
- Personal super contributions (consider contribution caps).

### **Capital Gains**

- If planning to sell your business or any major business assets – PLEASE GET ADVICE BEFOREHAND! Find out about any Capital Gains Tax (CGT) and Income Tax consequences so the transaction can be structured in the most tax effective way.
- If recognising a capital gain in the current financial year, consider selling loss making assets in the same year if appropriate to reduce taxable gain. IMPORTANT – remember that tax consequences are one small aspect in a decision to sell assets.

### **Assets**

- Review your asset register - consider writing off obsolete assets prior to 30 June.
- Planning to sell equipment towards the end of the financial year? Check whether it is likely that this will result in a profit. If so, delay until post 30 June. If the sale will result in a loss, sell prior to 30 June.

- The immediate asset write-off for small businesses increased to \$150,000 (GST exclusive amount) recently (from 12 March 2020) and runs until 30 June 2020. Note that the Federal Government is planning to extend this concession until 31 December 2020 however this is not yet law. Consider purchasing large assets prior to 30 June 2020 to take advantage of the deduction in this current year.
- You also have the ability to write off a general asset pool with a balance under \$150,000 at 30 June 2020.

### Superannuation contributions

- Consider paying your June quarter Superannuation Guarantee Contributions (SGC) before 30 June rather than waiting until the due date of 28 July.
- Note that super is deductible only once it is received by the fund, NOT when leaving bank account so don't leave it until the 30th - we would suggest at least a week beforehand.
- The concessional superannuation contribution cap for the 2020 and future financial years is \$25,000, regardless of age. This includes SGC, salary sacrificed amounts and personal deductible contributions.
- The non-concessional (post tax) contribution cap for the 2020 and future years is \$100,000.
- Remember, any amounts that **hit your fund** between the dates of 1 July to 30 June in a financial year will count towards the caps.
- Personal concessional contributions – if you are planning to make personal contributions you must meet the eligibility requirements:
  - You must be aged between 18 and 74.
  - If you are aged between 65 and 74 you must also pass a work test (40hrs worked in a consecutive 30 day period during the year).
  - You must lodge notice to claim deduction with your fund and receive an acknowledgement from your fund (provide your accountant with this).
  - REMEMBER TIMING IS IMPORTANT!

### Trading Stock

- When doing your stocktake, consider stock that may have lost value or become obsolete. Either write it down or write it off altogether.
- Choice to value at cost, market value or replacement value – what gives the best outcome and is most appropriate?
- Change in your stock value was less than \$5000 from the prior year – no physical count required.

### Staff

- Recognise and pay any bonuses prior to 30 June.
- Ensure all personal details are up to date in your payroll software for your end of year Single Touch Payroll (STP) Declaration.

### Single Touch Payroll

- You should have moved to appropriate payroll software by now; if you haven't then you need to ASAP.
- Each individual pay data (income, tax and super) is transmitted to the ATO. Negates the need for PAYG Payment Summaries in 2020.
- Employers need to finalise STP Declarations within their payroll software by:
  - 14 July – Employers with 20+ staff members
  - 31 July – Employers with 19 staff members or less.

### Trusts

- Trust distribution resolutions should be completed by 30 June.

## Companies

- Determine and document dividend amounts for the year by 30 June.
- Important that all funds taken out of the business for personal use are to be treated as wages and/or dividends.
  - Any other amounts will be considered unfranked dividends in the hands of the shareholder or a Division 7A loan to the shareholder. Unfranked dividends have tax consequences that are not ideal and loans will incur compulsory interest charges that are not tax deductible and must be paid back at a prescribed rate.
  - If you have a shareholder loan, you will require a loan agreement to be in place.
  - Best practice is to pay back any amounts taken in the same financial year to avoid the above.

## ATO – Review Focus For 2020

- The ATO are continuing their focus on small business and individuals. Specifically (but not limited to) the below:
  - Claiming private expenses in a business or failing to properly apportion between personal and business use, including home office claims in light of COVID-19 and an increase in working from home
  - GST compliance.
  - Omitting income (black economy activity), especially cash sales.
  - Rental properties and hosts on platforms such as Airbnb.
  - Unpaid superannuation –single touch payroll will make this far more transparent and provide the ATO better and earlier information on unpaid contributions.

**If you would like any further information in relation to the issues raised taking into consideration your particular circumstances please feel free to contact our office and make an appointment with one of our Accountants.**



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