

## Federal Budget Summary & 2023 EOFY Tax Planning for Small Business

### 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.



### Budget Summary

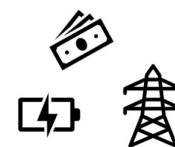
The Federal Budget is a large document with an enormous amount of information to digest. In the 2023/2024 Budget there is very little that affects small to medium business owners or individuals from a taxation perspective. We have summarised here some of the main points below that are relevant to Small Business and individual taxpayers.

**Temporary Full Expensing of Business Assets \*UPDATE\*** – The Government had previously indicated that the ability to write off asset purchases of any amount would end 30 June 2023. However, they have now announced that **assets purchased (installed and ready for use) between 1 July 2023 and 30 June 2024 costing less than \$20,000 will be eligible for immediate full deduction**. Assets over this amount can be placed into a small business simplified depreciation pool and depreciated accordingly. This measure is not yet law.

**Small Business Energy Incentive** – Businesses with an annual turnover of less than \$50 million who spend on items that support electrification and more efficient use of energy will be able to claim an additional 20% tax deduction (limit of \$20,000 deduction per business). Eligible assets or upgrades will need to be used or installed and ready for use between 1 July 2023 and 30 June 2024. This measure is not yet law.

Examples of eligible expenditure may include:

- Electrifying heating and cooling systems
- Upgrading to more efficient fridges and induction cooktops
- Installing batteries and heat pumps



**Energy Relief Payments** – Under this measure eligible households (primarily those on Centrelink payments) in WA will have up to \$350 deducted from their power bills in the 2024 financial year. In addition, eligible small businesses will get a discount on power bills of up to \$650. These discounts will be automatic, you will not need to apply. This measure is not yet law.

**Side note** – the WA State Government has also just announced a further \$400 electricity credit for every WA household in the 2024 financial year in the State Budget.

**Stage 3 Tax Cuts** – in the 2018 Federal Budget, the government announced a seven-year personal income tax plan, with implementation schedule to take place over three stages. The most recent budget did not alter the progression of the planned tax cuts, with the next change occurring as of 1 July 2024 (for the 2024/2025 financial year).

**(PREV BUDGET REMINDER) Low and Middle Income Tax Offset (LMITO) ENDED 30 JUNE 2022** – which means it is not available in the 2023 financial year and won't be included in your upcoming income tax returns.



## 2023 EOFY Tax Planning for Small Business

**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”. It is a good idea to get all your bookkeeping in order so you can review your position, then speak to your Accountant before making any decisions.

Below are some things you may consider in your tax planning.

### Income Timing – delay income from late in the year to the following year ⌚

- Consider which financial year is better to recognise income – **potentially delay invoicing**.
- **Review your debtors** – write off any that you believe have become 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 (SG)** for your staff prior to 30 June (must be received by fund before 30 June to be deductible).
- Pay any **donations** prior to 30 June (ensure the donation is an endorsed gift recipient).
- **Make any personal super contributions** prior to 30 June 2023 (please consider the contribution cap of \$27,500 p.a. which includes SG, salary sacrificed super and personal contributions).

## Technology and Skills & Training Boost

- Small businesses with an aggregated turnover of less than \$50 million can claim an additional 20 per cent bonus deduction in the 2023 FY for:
  - **Expenditure incurred for the purposes of business digital operations** or digitising their operations and depreciating assets such as portable payment devices between 29 March 2022 – 30 June 2023. An annual cap of \$100,000 applies.
  - **External training by registered providers** supplied to employees between 29 March 2022 – 30 June 2023.
- It will be important to highlight these expenses to your accountant so that they can claim the bonus deduction for you. These bonus deductions relate to expenditure after 29 March 2022, so you may like to check for items paid for 20 March 2022 – 30 June 2022 as the bonus deduction for these prior year amounts can be claimed in the 2023 financial year.

## Capital Gains

- If you're planning to sell your business or any major business assets – PLEASE GET ADVICE BEFOREHAND! Enquire about any Capital Gains Tax (CGT) and Income Tax consequences so the transaction can be structured in the most tax effective way.
- If you will have a capital gain in the current financial year due to the sale of an asset, 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. Getting professional advice about this suggestion is recommended.

## Assets

- **Planning to sell equipment?** Check whether it is likely that this will result in a profit. If so, it may be beneficial to delay until post 30 June – check with your accountant. If the sale will result in a loss, sell prior to 30 June.
- **Temporary Full Expensing of business assets** came into existence via COVID 19 relief measures. This measure was due to end 30 June 2023 however, it has been extended to 30 June 2024, albeit with some changes.
  - **Assets purchased prior to 30 June 2023 (any cost) – can be fully expensed.**
  - **Assets purchased between 1 July 2023 – 30 June 2024 < \$20,000 – can be fully expensed.**
  - **Assets purchased between 1 July 2023 – 30 June 2024 > \$20,000 – must be depreciated.**
  - **Assets purchased from 1 July 2024 onwards (< \$1000) can be written off.**
  - **Assets purchased from 1 July 2024 onwards (> \$1000) must be depreciated.**

If you are planning to purchase any assets over \$20,000, consider doing so prior to 30 June 2023 to take advantage of the full deduction in this current year.



## 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 your bank account so don't leave payment until 30 June - we would suggest at least a week beforehand.
- The **concessional superannuation contribution cap** for the 2023 and future financial years is \$27,500, regardless of age. This includes SGC, salary sacrificed amounts and personal deductible contributions.
- Currently, individuals may be able to access their **previously unused concessional contribution caps** back to the 2019 financial year if they meet eligibility requirements. Speak to your Tax Agent to find out more about this.
- The non-concessional (post tax) contribution cap for the 2023 and future years is \$110,000.
- 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 and claim a tax deduction you must meet the eligibility requirements:
  - You must be aged between 18 and 74.
  - If you are aged between 67 and 74 you must also pass a work test - 40hrs worked in a consecutive 30 day period during the year.
  - You must lodge a 'Notice of Intent to Claim a Deduction' form with your fund and receive an acknowledgement from them (provide your accountant with this).
  - REMEMBER TIMING IS IMPORTANT!



### **Tax Tip!**

***Employers - the Superannuation Guarantee percentage is changing as of 1 July 2023. Between 1 July 2023 and 30 June 2024, SG must be paid at a rate of 11% (up from 10.5% currently). The rate has been increasing 0.5 each year and will do so until it reaches 12% in the year ending 30 June 2026. Ensure you update your payroll software so that you are paying the correct amount for your employees.***

## Trading Stock

- When doing your EOFY 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?
- If the change in your stock value was less than \$5000 from the prior year – no physical count required.

## Staff/Payroll

- Recognise and pay any bonuses prior to 30 June.
- All employers should be using appropriate **Single Touch Payroll (STP)** software.
- Ensure all personal details are up to date in your payroll software for your end of year STP Declaration.
- As each individual's pay data (income, tax and super) is transmitted to the ATO throughout the year, there is no need for PAYG Payment Summaries again in 2023.
- **Employers need to finalise STP Declarations within their payroll software** by the 14<sup>th</sup> of July.

## 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, a loan agreement is required 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 2023**

The ATO were quiet over the main COVID 19 period, they stopped chasing taxpayers over debts for a while and generally left everyone alone. Now that Australian businesses are essentially back on their feet, they are really ramping up again. We are contacted daily about clients with overdue lodgements and debts. Remember, the ATO are usually pretty good about coming to a payment plan for debts that you may be struggling with. Provided you keep them in the loop they are generally fair and willing to come to an arrangement that you can meet. If they don't hear from you, that is when they start taking more extreme actions such as penalties and legal action.

Here are some of the items we know the ATO will be looking into in relation to the 2023 Financial Year.

- **Working from home deductions** – The method for calculating a deduction for working from home changed as of February 2023. The ATO will be closely monitoring how people are keeping records to verify their claims. **They will not accept general estimates of working from home hours post Feb 2023**, it is important to diarise this work time, so you have evidence.
- **Employer focus** – The ATO are ramping up their review of whether employers are complying with PAYG withholding and superannuation guarantee requirements. The use STP by all employers is enabling them to collect real time information and start investigating employers not doing the right thing much earlier.
- **Ride sharing & accommodation income** – Electronic platform operators (such as Airbnb and Uber) are now required to report payments made to individual operators to the ATO, so it is more important than ever to make sure that all income from these sources is reported in your tax return if you receive any.
- The ATO have also indicated that they will also be looking into:
  - **rental property deductions**, and
  - **capital gains from the sale of cryptocurrency, property, and shares.**



### Tax Tip!

**Cryptocurrency Trading** – When you buy and then subsequently dispose of cryptocurrency, a Capital Gains Tax (CGT) event occurs, and the gain or loss must be included in your tax return. A disposal can occur when you:

- *sell or gift cryptocurrency*
- *trade or exchange cryptocurrency*
- *convert cryptocurrency to fiat currency, or*
- *use cryptocurrency to obtain goods or services.*

*While a digital wallet can contain different types of cryptocurrencies, each cryptocurrency is a separate CGT asset. It is important to keep accurate and complete records of any transactions.*

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