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YEAR END STRATEGIES

THE 2018/2019 TAX GUIDE FOR YOU AND YOUR BUSINESS

VERA SERVICES
ACCOUNTING TAXATION AUDITING & BUSINESS ADVISORS

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 2018-19 and start planning fresh for next year.

Single Touch Payroll to include everyone

Single Touch Payroll (STP) is changing the way employers report their workers' tax and super information to the ATO.

Employers are expected to report information on a variety of areas through software that offers STP reporting or third-party service providers. Withholding amounts, superannuation liability information, ordinary times earnings, salaries, wages, allowances and deductions should all be included in reports.

Parliament has passed legislation to extend STP to now include businesses of any size. There are separate guidelines and due dates in place for different sized businesses.

Businesses with 20 or more employees:

As STP for businesses with 20 or more employees started on 1 July 2018, relevant businesses should already be reporting through STP or have applied for a deferral. If you are unsure if your current software has STP reporting, the ATO recommends talking to your software provider or tax professional.

Businesses with 5-19 employees:

Reporting can start anytime from 1 July to 30 September 2019. If you already use payroll software which offers STP, you can update your product and start reporting early. Online forms will be available from April 2019 for those who need to defer reporting or meet exemption criteria.

Businesses with 1-4 employees:

Micro employers with four or less employees who don't currently use payroll software can report STP information in other ways. The ATO has listed software developers who offer no-cost and low-cost STP solutions to make the transition smoother. There is also an option for your registered tax or BAS agent to report your STP information quarterly rather than each time you run payroll. This will be available until 30 June 2021.

To help with ease of transition for everyone involved, the ATO offers no penalties for mistakes, missed or late reports for the first year. Exemptions from STP reporting can also be provided for employers experiencing hardship, or in areas with intermittent or no internet connection.

VERA SERVICES

PO BOX 116
LIVERPOOL, NSW 2170
TEL (02) 9601 0333

EMAIL
rajnesh@accounting4u.com.au

WEBSITE
www.accounting4u.com.au

DIRECTOR
Rajnesh Kumar

Audit and Forensic
Taxation Services
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Further extensions for Instant Asset Write-Off

The Instant Asset Write-Off Scheme has been extended to 30 June 2020 for assets purchased under $30,000.

The scheme affects small to medium businesses with a turnover of up to $50 million a year, allowing business owners to immediately deduct assets costing up to $30,000 which can then be claimed for tax return in that income year. The new rules will apply from 2 April 2019 and are set to remain in place until 30 June 2020.

This extension was introduced in the 2019-20 Federal Budget, increasing the write-off threshold and eligibility criteria. The threshold applies on a "per asset" basis, meaning that eligible businesses can instantly write off multiple assets. There are certain assets that are excluded from the scheme so it is best to check with your accountant or financial advisor.

While the Instant Asset Write-Off Scheme reduces the tax your business has to pay, it is not a rebate. Your cash flow will still have to be sufficient enough to support any purchases. Ways that assets are purchased, such as lease or borrowing methods, may affect eligibility for the scheme.

This change will not supersede the previously announced threshold increase that allows businesses to immediately deduct purchases of eligible assets costing less than $25,000. The $25,000 increase applies from 29 January 2019 until budget night (2 April 2019) whereas the new $30,000 increase applies from budget night until 30 June 2020.

There is no guarantee that the Federal government will extend this scheme beyond 30 June 2020.

Essential record keeping at year-end

Staying on top of record-keeping all year round can save time, reduce stress for small business owners and help to maximise your tax return.

Although record-keeping can seem like a tedious job, it is an essential part of running a business. Good record-keeping makes it easier to meet your tax obligations, helps to manage your cash flow and make sound business decisions. Putting the hard work in at the end of each financial year can get your business organised and help you work smarter in the year ahead.

Essential business records that must be kept include:

Expense or purchase records:

You must keep records of all business expenses, such as receipts, tax invoices, cheque book receipts, credit card vouchers and diaries to record small cash expenses.

Year-end records:

These records include lists of creditors or debtors and worksheets to calculate depreciating assets, stocktake sheets and capital gains tax records.

Income and sales records:

You must keep records of all income and sale transactions such as tax invoices, receipt books, cash register tapes and records of cash sales.

Bank records:

Documents such as bank statements, loan documents and bank deposit books need to be kept in preparation for your tax return.

Fuel tax credits:

To claim fuel tax credits for your business, records must show that you acquired the fuel, used it in your business, and applied the correct rate when calculating how much you are eligible to claim.

Payments to employees and contractors:

Records of your workers need to be kept, including tax file numbers, withholding declaration forms, contributions to their superannuation, wages and any other payments made to them.

By law, business records must be kept for a minimum period of five years after the record is created, updated or the transaction is completed. Records can be kept electronically or on paper, must be in English or in a form that can be easily converted, and thoroughly explain all transactions. Failure to keep the correct tax records can incur penalties from the ATO.

Tax tips for property investors

Owning an investment property can provide great benefits, including additional income and entitlement to tax deductions.

Now is the time for property investors to take advantage of the tax strategies available to them this 2019-20 financial year.

Prepaid expenses:

In order to maximise your tax bill this financial year, bring forward any maintenance expenditure that will need to be completed by 30 June. Ensure to distinguish between what the ATO considers a 'repair' and an 'improvement', as improvements are non-deductible.

Interest:

Prepay interest on property investment loans if you have adequate cash flow in order to claim an immediate deduction. Investors may choose to pay interest in advance in order to simplify finances by making one prepayment of interest upfront or protect against possible interest rate rises over the 12 month period.

Record-keeping:

Investors must maintain a sufficient filing system to substantiate any claims made. The ATO requires you to keep up-to-date records of things such as proof of earned rental income, all incurred expenses, periods of private use by you or your friends, periods the property was used as your main residence, loan documents and efforts to rent out the property.

Depreciation deductions:

A depreciation schedule can be provided by a qualified quantity surveyor, outlining the tax deductions that are available and help to provide a significant return. The cost of a depreciation schedule is also tax deductible.

2019 End of Financial Year Checklist

Maximise your tax deductions for the 2019-20 financial year by planning and reviewing your records.

Here are top tips for businesses and individuals when it comes to year-end tax planning:

Small business CGT concessions

Individuals operating a small business may be eligible for capital gains tax (CGT) concessions on the sale of business assets. The small business CGT concessions are available to business taxpayers with an aggregated turnover of less than $2 million or on business assets less than $6 million. Review your potential concessions for this financial year to receive the benefits of tax relief or contribute to your retirement savings through the sale of a business.

Quarterly super contributions

The super guarantee (SG) requires employers to provide sufficient super support for their employees. For the quarter period of 1 April to 30 June, SG contributions must be paid by 28 July. To qualify for a tax deduction in the 2019-20 financial year, contributions must be paid by the quarterly due date.

You can make voluntary employer contributions of more than the required amount to increase benefits.

Stocktake

The year-end stocktake should involve a review of all trading stock and a decision made about its value from both a tax and commercial perspective. Obsolete, slow-moving or damaged stock should be identified by 30 June and disposed of for income purposes in order to receive a deduction.

Trust resolutions

Trustees of discretionary trusts must make and document resolutions before 30 June 2019 about how trust income will be distributed among the beneficiaries. If you have not already done so, setting up an interim financial statement can assist with distributing trust funds.

Deductions for expenses

There are a number of expenses that can be claimed for deductions in your individual 2019-20 tax return. Self-education expenses, such as course fees, textbooks, and stationery can be tax deductible if they are work-related or you receive a taxable bonded scholarship. Business owners operating from home may also claim deductions for home office expenses, such as room utilities, motor vehicle costs and depreciation and occupancy expenses.

Depositing contributions

Any contributions that have been recorded for your SMSF need to be deposited into the fund's bank account by no later than 30 June. This is especially important where members have reported concessional or non-concessional contributions.

Capital losses

Selling assets that perform poorly, such as shares, could enable you to bring forward a tax loss. This can be offset against any capital gains made throughout the financial year.

Make use of us! This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your personal and business planning.

We are always pleased to discuss matters with you and advise in any way we can.

Getting PAYG withholding right

As the end of the financial year approaches, it is important to be aware of changes to compliance obligations for small business owners.

New penalties for business' pay-as-you-go (PAYG) withholding and reporting obligations will commence 1 July 2019, with businesses now prevented from claiming deductions for payments to employees and certain contractors if they fail to comply.

Payments that are impacted include salaries, wages, commissions, bonuses or allowances to an employee, payment under a labour-hire arrangement, payment to a religious practitioner or payments for a supply of service.

The new laws will prevent an employer from claiming a deduction for payments to employees if they fail to withhold an amount as required under PAYG withholding rules or report a withholding amount to the ATO.

It is also necessary to understand the importance of lodging your business activity statement on-time, as a failure to do so may result in a business permanently losing its tax deduction for wages paid under the new law.

Businesses will also have to ensure they obtain a valid ABN from their suppliers and withhold at the top marginal rate if an ABN is not provided. A business that fails to comply with these rules will be denied a deduction if the payment relates to a contract for the supply of services. Contracts for goods and property are excluded from the operation of these new laws.

Voluntarily disclosing mistakes to the ATO before an audit or other compliance activity in regards to your tax affairs can allow your business to retain their deduction. Taking early action to ensure your business is compliant to these updated PAYG withholding laws will make a difference to whether you remain eligible for deductions.

Superannuation strategies for end of the financial year

As the end of the financial year approaches, now is an ideal time to think about ways that you could grow your superannuation.

Here are some strategies you can consider that will enable you to streamline your finances while also seeking some generous tax breaks.

Concessional contributions:

Also known as before-tax contributions, these are the funds that go into your super account from your income before-tax. They include employer contributions, salary sacrifice payments and personal contributions you claim as a tax deduction. The concessional contributions cap is $25,000 for all ages for the 2019-20 financial year.

Individuals must work at least 40 hours in a 30 day period within the financial year to satisfy the "work test" before they can make a contribution. The 2019-20 Federal Budget extended the work test exemption age from age 64 to 66, allowing greater flexibility in contribution rules for members aged 65 and over. From 1 July 2020, Australians aged 65 and 66 will be able to make voluntary superannuation contributions of up to $300,000 in a single year without meeting the work test.

Non-concessional contributions:

Before-tax contributions are not the only way to top up your super account. Non-concessional contributions are made into your super fund from after-tax income. They include contributions made by you or your employer on your behalf from after-tax income, contributions made by your spouse to your super fund, or personal contributions not claimed as an income tax deduction. The annual non-concessional contribution cap for the 2018-19 financial year is $100,000.

Where your total superannuation balance is $1.6 million or above at the end of 30 June, your non-concessional cap will be zero for the 2019-20 financial year. If non-concessional contributions have been made in the previous financial year, you will have excess non-concessional contributions. These contributions may not be able to be released depending on the rules of your fund.

Spouse contribution:

Contributions that are paid by a spouse into the superannuation account of another spouse can be a useful way to grow your partner's fund and provide tax benefits if they have fallen on hard times.

Under spousal contribution eligibility requirements, an individual can claim an 18% tax offset of contributions up to $3,000 made on behalf of a non-working partner. A further $3,000 can then be contributed with no tax offset. The changes delivered in the 2019-20 Budget now allow spousal contributions to be made until age 74, up from age 65, without having to meet the work test.

In order to receive the maximum tax offset of $540 for the 2019-20 financial year, you must contribute to your partner's super fund (either de-facto or married) and your spouse's income must be $37,000 or less. The tax offset is then progressively reduced until it reaches zero for those who earn $40,000 or more.

Government changes to individual income tax

The Personal Income Tax Plan has gone through recent changes regarding rates, thresholds and offset entitlements.

From 1 July 2018, the low and middle-income tax offset has been increased by $550. This now means individuals can have their tax reduced by up to $1,080 and dual income families up to $2,160 after lodging tax returns for the 2018-19 year.

From 1 July 2024, the 32.5% tax rate will be reduced to 30%, creating only three tax brackets for Australians. It is projected that by 2024-25, 94% of taxpayers will face a marginal rate of 30% or less. With this new plan, the 19% rate threshold (24% of taxpayers) will be increased from $41,000 to $45,000, the 30% rate (70% of taxpayers) will be $45,001 to $200,000 and the 45% rate (6% of taxpayers) will be over $200,000.

For the upcoming tax season, individuals should review these changes and apply necessary amendments to their deductions in case they are affected.

Further delays to Division 7A

Changes to Division 7A will be further delayed, as outlined in the 2019-20 Federal Budget.

This section of the Tax Act requires benefits provided by private companies to related taxpayers be taxed as dividends unless they are structured as complying loans or subject to other exemptions.

Over the years, the provisions of Division 7A have been progressively amended. The Government announced that it will defer the start date of the already proposed changes that were delivered in the 2018-19 Budget to Division 7A by one income year, from 1 July 2019 to 1 July 2020. Delaying the start date will allow additional time to further consult with stakeholders and to refine the Government's implementation approach.

The proposed amendments include simplifying Division 7A loan rules to make it easier for taxpayers to comply, increasing the benchmark interest rate by more than 3% from housing rate to overdraft rate, and a 10-year complying loan to replace both 7 and 25-year loan terms.

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