



2019 YEAR END TAX PLANNING GUIDE

We are pleased to provide our Australian year-end tax planning guide for 2019.

Tax Planning should be done on a regular basis throughout the year. However, these tips are especially relevant to consider just before the end of the financial year.

Outlined below are a number of suggestions that may assist taxpayers to legitimately minimise or defer their taxation exposure.

Please note these suggestions are of a general nature only should not be relied upon without seeking specific personal advice. We recommend that you contact your usual Mazars advisor to assist you with your own specific tax planning requirements.

BUSINESS

Review your business's 'state of affairs'

While business owners should be reviewing their year to date performance regularly, if this hasn't occurred, now is the time to be doing it. Prepare up to date management financial statements and cash flows with comparisons with previous years and the budgeted performance. This should help to determine how the business has performed to date, the likely full year performance and will establish a platform for this year's tax planning and future budgeting.

SMALL BUSINESS RULES

Small Business Entities (Aggregated turnover of <\$10 Million) can access concessional rules which make calculating tax simpler. Small business entities can choose simpler depreciation rules. They can get an immediate write-off for assets costing < \$30,000 (excl GST). (This concession has also been extended to businesses with a turnover of less than \$50 Million). This concession has now been again extended until 30 June 2020.

Other assets will be able to be depreciated in a pool at the rate of 30% (15% first year).

Other small business concessions include simplified trading stock rules, GST and FBT rules and the ability to deduct prepaid expenses immediately.

Small Business Capital Gains

In addition, if you have made a capital gain in relation to an asset used in your small business, various CGT concessions may be available. The turnover threshold for the concessions remains at \$2 Million. They are also available for small business entities and business taxpayers with net assets of <\$6M.

If available, the taxpayer may be able to access:

- 15 year exemption (no tax payable)
- 50% active asset discount
- Retirement exemption (up to \$500,000 tax free per taxpayer)
- Active asset roll-over (minimum 2 year deferral)

Please talk to us before you consider selling your business to avail yourself of the best possible concessions. Tax planning 'after' the event is often less effective or not available at all.

ALL BUSINESSES

Deferral of Income

If cash flow and business reality allows, consider deferring the derivation or receipt of income until the next financial year. If on a cash basis, consider trying to defer the receipt of cash. If reporting income on an accruals basis, defer the derivation of income by holding back invoices if possible until after 30 June.

Income Received in Advance

Consider whether income received is actually derived. Income received in advance may not be derived (and not taxable) until the services are provided. Conversely income such as interest, royalties, rent and dividends are usually derived upon receipt.

Timing of Expenses

Expenses are only deductible when incurred, i.e. there must be a presently existing liability to pay the expense. Many accruals and provisions are not deductible as they represent an estimate of expenses and do not relate to a presently existing liability.

Most prepayments now are not deductible until the period to which they relate (some exceptions apply), although small businesses and individuals may be able to deduct 12 months of prepayments in the year paid.

Bad Debts

Review your debtors and if any are unlikely to be recovered, actually write them off as bad before 30 June. This will reduce your income tax and should generate a GST refund (for taxpayers registered for GST on a non-cash basis).

Trading Stock

Prepare for a stock take on 30 June. Identify any obsolete or old stock and scrap it or write it down to its correct market value. Individual items of trading stock can be valued at cost, market value, or replacement value for tax purposes. The tax value may differ to the accounting value.

Bonuses

Bonuses are only deductible when they are actually incurred i.e. at 30 June the business must be committed to paying them and they are not subject to any discretion.

Depreciation (non-small business)

Assets costing less than \$30,000 can now be claimed as a 100% deduction if the business turnover is less than \$50 Million.

Assets purchased during the year before 3 April 2019 can be depreciated using the diminishing value method at 200% of the prime cost rate.

Review your asset register and scrap any obsolete items before 30 June. If you will be selling any items of plant that will realise a profit on sale, consider delaying the sale until after 30 June. Conversely, if selling assets that will realise a loss, bring it forward.

The Australian Taxation Office (ATO) considers (in administrative practice statement PS LA 2003/8) that items costing less than \$100 can generally be claimed as deductible outright (some exceptions apply). All assets above this amount should be depreciated.

Superannuation Contributions only deductible when fund receives the money

The ATO considers that only contributions that are received by a superannuation fund by 30 June 2019 on behalf of employees including working directors, are tax deductible to your business in the 2019 year.

As 30 June falls on a Sunday in 2019 we recommend that contributions are made early.

Payment to a superannuation clearing house before 30 June may not be sufficient to guarantee deductibility as the clearing house needs to pay it to the fund. Accordingly, if you plan to pay all June quarter superannuation before the end of June, we recommend this be done as early as possible.

COMPANIES

Tax Rate Cuts

Base Rate Entity companies (business turnover of less than \$50 Million for the 2018/2019 year and with less than 80% of income as passive income) will only pay tax at 27.5% of their taxable income (other companies 30%). If your company's turnover is close to the threshold, consider income deferral strategies to reduce the tax payable.

Franking Credit Trap

With the reduction in company tax rates, the franking credit rules have changed. Any dividends paid must be franked to the same tax rate that applies to the company in the year that the dividend is paid. Accordingly, there may be some leakage of franking credits if tax was paid at 30%, but the current rate is now 27.5%.

Tax Rate of Passive Investment Companies and Corporate Beneficiaries

To get the 27.5% tax rate, a company must be a 'base rate entity' (refer above). Accordingly, companies receiving only passive investment income, or only receive distributions from a trust will pay tax at 30%.

We recommend you contact your Mazars advisor to discuss any planning for use of corporate beneficiaries.

Research & Development (R & D)

Have you considered whether your company may be eligible for an additional tax concession for R & D expenditure undertaken?

If your company's turnover is less than \$20M, it can access a refundable tax offset equal 43.5% of the R & D expenditure. There is a 38.5% non-refundable tax offset available to companies with turnovers of greater than \$20 million.

R & D plans need to be registered with The Department of Industry, Innovation and Science before claiming the concession. Cut off is 10 months after the end of the financial year.

Foreign Transactions

Do you own > 10% of the shares or units in a foreign company or trust? If so have you considered whether the Controlled Foreign Company or other attribution rules will have application and attribute income to you?

If you have foreign transactions, have you correctly recorded any foreign exchange gains or losses under the Forex realisation rules?

Have you withheld and remitted non-resident withholding tax on payments of dividends, interest or royalties to non-residents? An annual report will be required.

Company Loans – Division 7A

Any payments, loans or debts forgiven from private companies to shareholders and their associates could be deemed to be an unfranked dividend.

The deemed dividend rules in Division 7A can also include deemed loans from trusts to shareholders where the company has an unpaid present entitlement (UPE) to income of the trust. Division 7A can also apply to the private use of a company's assets by a shareholder (limited exceptions apply).

Action can be taken to prevent deemed dividends from occurring.

Ensure that such loans are either repaid or documented and made subject to minimum interest and repayment terms before the lodgement day of the company / trust's tax return.

Ensure that interest is charged and minimum repayments are made before 30 June in relation to prior year loans.

Company Dividends & Interest

When paying dividends or interest to non-bank lenders, there may be a requirement to complete a dividend and interest schedule.

After a company has paid a dividend, it must provide a statement to shareholders noting the amount that the dividend is franked.

INDIVIDUALS & FAMILIES

In addition to the above business planning ideas, further ideas may be available for individuals and families with business or non-business income.

The 2018-19 Federal Budget proposed changes to a low and middle income tax offset (LMITO). This has not yet passed, but is proposed to apply for the 2018-2019 year.

Tax Rates for 2018 - 2019	Tax threshold from 2018/19 to 2021/22
Nil	Up to \$18,200
19%	\$18,201 - \$37,000
32.50%	\$37,001 - \$90,000
37%	\$90,001 - \$180,000
45%	Above \$180,000
LMITO	Up to \$530 (\$1,080)*
LMITO	Up to \$445

* Proposed to increase to \$1,080 but not yet law

Capital Gains Tax (CGT)

Have any assets sold been held for more than 12 months? If so the general 50% CGT discount may apply?

- Do you qualify for the small business CGT concessions – refer above?

If you have realised capital gains during the year, consider crystallising assets that have underlying capital losses before 30 June as these will reduce the net capital gain.

Non-Commercial Losses

Losses of a business carried on by an individual or partnership may be required to be quarantined until future years against income of that or of a similar / related business. The exceptions are:

- If there is assessable income from the business of >\$20,000
- Profit in 3 out of the last 5 years
- Real property of \$500,000 or more is used in the business;
- Other assets of \$100,000 or more are used in the business;
- Commissioner's discretion is exercised in relation to that business.

In addition to the above, taxpayers with adjusted taxable incomes above \$250,000 cannot use these tests and losses are quarantined until a year where income falls below \$250,000.

Capital Protected Borrowings (CPB)

CPBs are arrangements that protect an investors 'capital' against the fall in market value of a security against which they have borrowed. Usually the capital protection involves a higher interest rate on the loan.

A portion of the interest on loans that facilitate a CPB may not be deductible (to the extent of any capital protection premium).

Tax Products *

If you are considering investing in any 'tax effective' investments, ensure they have been granted a Product Ruling which sets out the tax treatment of the income and expenses in relation to the investment as the ATO are continuing to scrutinise these investments. Always seek professional advice from an AFS license holder before investing in any financial products.

20% Tax Offset for Investment in Start-Up Companies

Investment in Early Stage Investment Companies (ESIC) provides a 20% tax offset (capped at \$200,000 for \$1 Million invested). Non-sophisticated investors may only invest a maximum of \$50,000 to qualify. Capital Gains may also be disregarded if the shares are disposed after 12 months but before 10 years. Various criteria apply to ensure the company is an ESIC.

Employee Share Schemes

The employee share scheme rules are quite complex. Employees are no longer allowed to elect that they be taxed up front. Instead, they are either taxed up front, or taxed at a deferred taxing point depending on how the scheme is structured. Employers are now required to provide employees with a statement advising of values of shares issued.

TRUST DISTRIBUTIONS

Trustees of discretionary trusts need to consider which beneficiaries they will make presently entitled to the income or capital of the trust on or before 30 June.

The trust deed should be reviewed to consider how trust income is to be determined and to which beneficiaries income can be distributed.

Individual Beneficiaries on trusts with small businesses can get an 8% discount (capped at \$1,000 per individual) on the business income received.

Mazars will be further providing guidance to our trust clients about trust distributions before 30 June.

General Anti-Avoidance Provisions

We note that the tax legislation contains specific anti-avoidance provisions which target schemes entered into with the dominant purpose of tax avoidance.

Accordingly, 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.

June 2019 PAYG Instalments

If you are a taxpayer on the PAYG Instalment system and you plan to use some of these tax planning tips to reduce your 2019 taxable income, you may be able to vary the June quarterly instalment (due 28 July) to a lower amount to assist with your cashflow. We suggest you contact your Mazars advisor to discuss this.

SUMMARY

These tax planning ideas are of general nature only and have been provided to assist taxpayers with some general ideas in relation to their tax affairs. Accordingly, they should not be relied upon without seeking professional advice in relation to your own circumstances.

We also recommend you speak to your tax advisor about having your 2019 tax compliance prepared as soon as possible after 30 June. While the tax payable may not be due until 2020, early preparation will enable you to know any tax liability and budget for its payment. Alternatively, if a refund is due, it's always better to receive this early and to reduce future PAYG Instalments by early lodgement of your return.

We strongly recommend that you contact your usual Mazars advisor, or one of our tax specialists:

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** This is not a recommendation to make a financial investment, but a reflection of the tax attributes of such and accordingly should not be regarded as financial advice. Always seek professional advice from an AFS license holder before investing in any financial products*

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