GJB's General Year End Tax Planning Strategies 2013-14

Business Income and Expenses

Subject to cash flow requirements, consider deferring income until after 30 June, especially if you expect lower income for 2014/15 compared to 2013/14.

Most businesses are taxed on income when it is invoiced. Some small businesses may be taxed only when income is received. Income from construction contracts is generally taxed when progress payments are invoiced or received.

Ensure that you have complied with the requirements to claim deductions in 2013/14:

- Bad debts must be written off in your accounts before 30 June
- Employer and/or self-employed superannuation contributions must be paid to, and received by, the super fund before 30 June and must be within the contributions cap ($35,000 for individuals aged 59 or over on 30 June 2013, otherwise $25,000)
- Depreciation can be claimed for assets first used, or installed ready for use, before 30 June
- Small businesses (turnover less than $2 million) can claim expenses prepaid up to 12 months in advance – for larger businesses, this is generally limited to expenses below $1,000
- Wages paid to your spouse or family members must be reasonable for the work performed

Small businesses planning major purchases or replacements of capital equipment should contact us for advice. Careful timing of those transactions can result in substantial tax savings.

Review valuations of trading stock in the lead up to 30 June. Best practice is generally to value stock at the lower of cost or market selling value. This may change if you expect a tax loss for 2013/14, or substantially higher income in 2014/15 compared to 2013/14.

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Personal Income, Deductions and Tax Offsets

Subject to cash flow requirements, set term deposits to mature after 1 July, rather than before 30 June.

Consider realising capital losses if you have already realised capital gains on other assets during 2013/14. Conversely, consider realising capital gains if you have unrecouped capital losses, or you expect substantially higher income in 2014/15 compared to 2013/14.

If you expect lower income in 2014/15 due to retirement or any other reason, consider deferring income until after 1 July, when you will be in a lower tax bracket. If you are a primary producer and you expect a permanent reduction in income, consider withdrawing from the income averaging system.

Where possible, arrange for out-of-pocket medical expenses to be grouped in the same financial year, and for all expenses to be invoiced in the name of the higher income earner. This may enable you to meet the annual threshold for the Net Medical Expenses Tax Offset. Read further for changes to this tax offset in 2013/14.

Arrange for deductible donations to be grouped in the higher income year, if you expect substantially higher or lower income in 2014/15 compared to 2013/14. Make all donations in the name of the higher income earner.

If you plan to purchase income-producing assets, consider acquiring assets that will generate positive cash flow in the name of the lower income earner. Conversely, consider acquiring negatively geared assets in the name of the higher income earner.

Other Tax Planning Considerations

Contact GJB for advice if you have moved to or from Australia for an extended period. You may need to review your residency status for tax purposes. There are important tax consequences if you change residency.

Trustees of trusts should ensure that all necessary documentation is completed before 30 June, where you intend to stream capital gains or franked distributions to specific beneficiaries.

Income Tax Changes – Small Businesses

Depreciation and Low Cost Asset Deductions

Under current legislation, small businesses can claim large up-front deductions for plant and equipment.

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Items costing less than $6,500 excluding GST are immediately deductible.

Motor vehicles costing $6,500 or more qualify for an upfront deduction of $5,000 + 15% of the remaining amount.

As part of the proposed repeal of the mineral resource rent tax, with effect from 1 January 2014 the government intends to reduce the $6,500 threshold to $1,000 and remove the $5,000 motor vehicle concession.

Superannuation Guarantee

From 1 July 2013, the superannuation guarantee percentage increased to 9.25% and contributions are now required for employees aged 70 or over. Some new administrative requirements also apply.

Income Tax Changes - Individuals

Tax-Free Threshold and Tax Rates

The tax-free threshold for 2013/14 for Australian resident individuals is $18,200. When combined with the Low Income Tax Offset, residents pay no tax on incomes below $20,542.

Higher thresholds apply to senior Australians and pensioners. For incomes above the thresholds, tax rates are slightly lower.

Non-resident individuals for the whole of 2013/14 do not get a tax-free threshold. Part-year residents get a partial threshold.

Means Testing of Private Health Insurance Rebate & Medicare Levy Surcharge

Tiered rates of private health insurance rebates apply, based on your age and income.

If you claim the rebate as a premium reduction you are (or were) required to nominate your rate when renewing your policy. If you quoted the wrong rate, you will have an amount payable or refundable on your 2013/14 tax assessment.

If you don't hold private health insurance, tiered rates of Medicare levy surcharge apply based on your income.

Changes to Net Medical Expenses Tax Offset (NMETO)

Only taxpayers who claimed NMETO in 2012/13 will be eligible to claim NMETO in the 2013/14 income year. The claim for all other taxpayers will be restricted to out of pocket expenses relating to disability aids, attendant care or aged care which exceed the thresholds.

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Superannuation contributions

The concessional (deductible) contributions cap for 2013/14 has been increased to $35,000 for individuals aged 59 or over on 30 June 2013. The cap remains $25,000 for all other individuals.

If you have inadvertently made super contributions in excess of the maximum deductible amount, the system for taxing the excess contributions has changed. If you think this may apply to you, please contact GJB for advice.

Superannuation pensions

After several years during which the minimum pension payment for account based pensions was reduced, the minimum payment amount returns to normal for 2013/14.

Low income super contributions (LISC)

Under current legislation, low income earners (adjusted taxable income below $37,000) may benefit from a government superannuation payment up to $500.

This benefit may be removed with effect from 1 July 2013 as part of the proposed repeal of the mineral resource rent tax.

Companies – Loss Carry-Back

Companies that have paid tax in the past, that incurred a loss in either the 2012/13 or 2013/14 income years, may be able to obtain a refund of some of the tax previously paid, under current legislation.

This measure may be removed with effect from 2013/14 as part of the proposed repeal of the mineral resource rent tax. If you think this may apply to your company, please contact us for advice.

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