

Issue – EOFY Tax Planning – June 2020

Entities not defined as Small Business

Aggregated turnover (Refer Section D) of over \$10 million for the year. Please ignore this section if not applicable to you – refer to [Small Business Entities](#)).

Prepayments

The prepayment rule for "other small businesses" applies to business taxpayers with a group turnover of \$10 million or more.

Depreciation rules for turnover up to \$500 million per annum

Businesses with a turnover of up to \$500 million per annum can immediately write off the cost of new or second-hand assets acquired after 12th March 2020 costing up to \$150,000 per item, subject to those assets having been purchased and installed ready for use by 30th June 2020.

The \$150,000 Instant Asset Write Off Deduction does not apply to the purchase of a car (a passenger vehicle, except a motorcycle or similar vehicle, designed to carry a load less than one tonne and fewer than nine passengers) the instant write off is limited to the business portion of the car limit of \$57,581. If the car cost more than \$57,581, you cannot claim the excess cost of the car under any other depreciation rules.

The Australian government announced an accelerated rate of depreciation of 50% for businesses with turnover under \$500 million on 12th March 2020 which applies to new assets not previously held by another entity that were first used or first installed ready for use after 12th March 2020.

Businesses with Turnover up to \$50 million per annum

Businesses with turnovers up to \$500 million per annum can immediately write off the cost of new or second-hand assets (including motor vehicles) costing up to \$30,000 per item purchased in the period 1st July 2019 to 11th March 2020.

General Deductions

- Staff Bonuses – ensure a cheque has been written with payment made prior to 30th June 2020 and PAYG withholding tax deducted.
- Staff Holidays – where practical, encourage staff to take holidays prior to 30th June 2020 or if being cashed out, paid before 30th June 2020.
- Superannuation – for the year ended 30th June 2020 superannuation contributions can be paid for any eligible person:
 - up to \$25,000
 - people aged 65 years or over must satisfy a "work test". The work test applies when you have turned 65 years until you turn 75 years, you must have worked at least 40 hours within 30 consecutive days in a financial year before your superannuation fund can accept any non-concessional contributions for you.
- Self-Employed Persons – self-employed persons can obtain a superannuation deduction on the same basis as that adopted for employees.
- Salary Sacrifice Arrangements – salary sacrifice arrangements can be utilised to maximise superannuation contributions subject to the overall deduction limits.
- Non-Concessional Contributions – the non-concessional contributions cap is \$100,000 for 2019/2020. The maximum bring-forward cap is \$300,000 over a three-year period. If you have more than \$1.6M in superannuation you cannot make non-concessional (after tax) contributions, receive spouse contributions or receive the government co-contributions.

- Superannuation Minimum Contributions – superannuation contributions must be paid for all eligible employees who are paid, at least, \$450 gross per month.
- Interest on Loan Funds – interest can be claimed on loans taken out for business purposes or to buy income producing properties and/or shares.
- Repairs & Maintenance – ensure that the work has been completed prior to 30th June 2020.
- Directors' Fees – ensure cheques are drawn for payments made prior to 30th June 2020 and that PAYG Withholding Tax is deducted.
- Travel Deductions:
 - Overseas – prepare a full itinerary and diary.
 - Local – more than six nights you are required to maintain a diary.

A ban on travel related tax deductions for most real estate investors now applies.
- Motor Vehicle Expenses – there are two methods available to calculate tax deductions for work-related motor vehicle expenses:
 - Cents Per Kilometre - 68 cents per kilometre claim (to claim up to a maximum of 5,000 business kilometres per vehicle per annum).
 - Logbook Method - you can claim your actual business kilometres as a percentage of the total kilometres that the motor vehicle has travelled and to then utilise that percentage as the claimable percentage of the total motor vehicle expenses incurred.
- Donations – any promised tax-deductible donations should be made prior to 30th June 2020.
- Borrowing Costs – borrowing costs can be claimed over the shorter of five years or the term of the loan.
- Entertainment – entertainment is not deductible unless it is provided as a fringe benefit and Fringe Benefits Tax has been paid.
- Gifts – ensure payment is made to a tax-deductible charity on or before 30th June 2020.
- Audit Fees – deductible if there's a contract that creates a presently existing liability before 30th June 2020.
- Salary Packages – ensure salary packages for 2019/2020 are negotiated and documented prior to 30th June 2020.
- Legal costs – review any legal costs that have been incurred. If the legal costs relate to regular business operations (e.g. debt collection), separate those legal costs from the remaining legal costs which will relate to capital items which are not claimable for income tax purposes.
- Luxury Car Tax – the Luxury Car Tax is 33% and applies to the GST-inclusive value in excess of \$67,525 (including GST). The Luxury Car Tax for “fuel efficient vehicles” applies from a cost of \$75,526 (including GST).
- Research & Development – companies that incur research and development can claim additional taxation benefits. There are two components:
 - companies with turnovers under \$20 million
 - companies with turnovers over \$20 million
 - companies must register their research and development projects with AusIndustry by 30th September 2020 (normally 30th April but the registration date has been extended because of COVID-19 coronavirus) or the date of lodgement of the company's income tax return, whichever is the earlier.
- Research & Development for companies with turnovers under \$20 million – a company will receive the benefit of a research and development refundable tax offset calculated at 43.5% of the eligible research and development expenditure in the financial year. The rebate can be paid to the company by the Australian Taxation Office within thirty days of lodgement of the company's taxation return, if the company elects to receive this payment in the company's income tax return.
- Companies with turnovers over \$20 million – the company will receive a 38.5% non-refundable tax offset of the eligible research and development expenditure. If you require further information of the treatment of research and development expenditure, please contact us.

The Department of industry, Innovation and Science has announced that, because many businesses are facing difficult economic circumstances due to the recent bush fires and COVID-19, the department will accept a "Provisional Advance" for an "Overseas Finding Application" for the 1st July 2019 – 30th June 2020 income year, by 30th June 2020.

The minimum details required in a "Provisional Advance" for an "Overseas Finding Application" are:

- company contact details
- descriptive name/title of claimed research and development activities

The further information required to assess the application will be required to be lodged with the Department of Industry, Innovation and Science (AusIndustry) by 30th September 2020.

Deductions On “Accruals” Basis

(Subject to income tax return being lodged on an “accruals” basis)

- Fringe Benefits Tax Payment (Accruals Basis) – if a Fringe Benefit Tax instalment is due on 21st July 2020, it can be accrued and claimed as a tax deduction in the year ending 30th June 2020.
- Commissions Owning (Accruals Basis) – where employees or another business are owed commission by your business for services rendered up to 30th June 2020, the accrued amount can be claimed as a tax deduction at 30th June 2020.
- Bad Debts (Accruals Basis) – write-off any bad debts prior to 30th June 2020 and prepare minutes authorising the write-off.
- Interest (Accruals Basis) – any accrued interest outstanding on a business loan, that has not been paid at 30th June 2020, can be claimed as a tax deduction at 30th June 2020.
- Salaries & Wages (Accruals Basis) – the accrued expense for the days that employees have worked, but not paid at 30th June 2020, can be claimed as a tax deduction at 30th June 2020.
- Commercial Bills (Accruals Basis) – where the term of a Commercial Bill expires beyond the 30th June 2020, the discount applicable to the period up to 30th June 2020 can be claimed as a tax deduction.
- Rent (Accruals Basis) – if rent is in arrears, the part that is owed up to 30th June 2020 can be claimed as a tax deduction.

Stock

- Stock on Hand – review stocktake list in June 2020. Determine whether to conduct “sales” prior to 30th June 2020. Conduct stocktake as at 30th June 2020. If you are conducting regular “rolling” stocktakes throughout the year, it may not be necessary to conduct a stocktake as at 30th June 2020.
- Value of Stock – stock can be valued at different individual methods for each item of stock:
 - Cost
 - Sale Value
 - Lower of Market Value or Replacement Cost
- Obsolete Stock – identify any obsolete stock and decide whether to clear or dump that stock prior to stocktake.

Assets

- Fixed Assets – determine if there are any benefits in scrapping any fixed assets to obtain the tax write off prior to 30th June 2020.

Employment Issues

- Payment Summaries - if you are using the Single Touch Payroll (STP) you will be exempt from issuing payment summaries to your employees if you have made a “finalisation declaration”. The payment summaries will be made available to your employees online through myGov. The finalisation declaration requires the employer to declare that all of the information relative to the financial year for each employee has been provided through your STP reporting. "Finalisation Declarations" lodgement requirements:
 - Employers with 20 or more employees will have until 14th July 2020.
 - Employers with 19 or less employees will have until 31st July 2020.
- Payment Summaries – if you are not using Single Touch Payroll (STP) – payment summaries must be prepared and sent to all employees by 14th July 2020.
- PAYG Withholding Tax - if you are not using Single Touch Payroll (STP) – the annual summary is due to be lodged with the Australian Taxation Office by 14th August 2020.
- Payroll Tax (if you are liable) - you must prepare a reconciliation of total payroll for the year showing the total amount of payroll tax payable and then reconcile this with the remittances that you have forwarded throughout the year.
- Work Cover - a Work Cover Declaration is due by 31 August certifying wages paid for year ending 30 June 2020.

Income Issues

- Bad Debts Recovered (on an accruals basis) – if a debtor owed an amount which has been written off, subsequently pays that amount you must bring the amount paid to account as assessable income in the year of recovery.
- Government Grants – if your business has received a grant from a government department, it is most likely paid to you on the basis that it is taxable income and therefore you need to disclose in your tax return the receipt of the government grant.

The government has announced a tax exemption for primary producers, and small businesses who receive grants for losses suffered from the North Queensland floods and primary producers affected by the Queensland storms in January/February 2019.

The “Cashflow Boost Payments” that many businesses have received as part of the government's COVID-19 Coronavirus Stimulus Package are not subject to taxation.

The “JobKeeper payments” provided by the government are to be treated as taxable income by the business.

- Personal Service Income – the taxation laws include measures that are designed to limit the deductions that are available to certain contractors, whether operating as a sole trader or through a company, trust or partnership; these are known as the Personal Services Income (PSI) measures. A taxpayer, who meets certain specified tests, will be treated as carrying on a personal services business and will be able to claim a wider range of deductions. If you are operating a personal services business, as you need to be aware of the Australian Tax Office’s strict approach to income retention and income splitting. If you have any questions relating to this item, please contact us.
- Non-Commercial Losses – for a business to be commercial, under the “non-commercial losses tests”, the business needs to meet certain prescribed tests. If the tests are not met, any losses arising from the activities must be carried forward to offset in a later year against future income from the same type of source. If you have non-commercial losses, please contact us for advice on the treatment of the losses in 2019/2020.
- Trust Distributions – the Australian Taxation Office has indicated that it will be enforcing the full meaning of the law, whereby trustee distribution/resolutions must be made by no later than 30 June each year.

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