

## Issue – EOFY Tax Planning – June 2020

### Small Business Entities

- **Aggregated turnover** (relates to annual turnover received by your business, plus the annual turnover of any business connected to you or that is an affiliate of yours) of less than \$10 million. “Aggregated turnover” is calculated on a group basis and must be “business income”. Please ignore this section if it is not applicable to you. In that case if you are in business, please refer to Section J “Entities Not Defined as Small Business”.
- The **Small Business Entity Rules** apply to a sole trader, partnership, company or trust which has a group turnover of less than \$10 million in the previous year, or likely to be less than \$10 million in the current year.

### Depreciation Rules

In the period 1st July 2019 to 11th March 2020 a small business taxpayer can immediately write off the cost of new or second-hand assets costing up to \$30,000.

In the period 12th March 2020 to 30th June 2020 a small business taxpayer can immediately write off the cost of a new or second-hand asset costing up to \$150,000, subject to those assets having been purchased and installed ready for use by 30th June 2020. On 9th June 2020, the Federal Treasurer announced that the Instant Asset Write Off for individual assets costing up to \$150,000 would be extended to 31st December 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 9 passengers). The instant asset 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.

If you are a small business with an aggregated turnover of less than \$10 million and use the simplified depreciation rules, those assets over the instant asset threshold which are eligible for the accelerator depreciation, are added to the general small business pool. You can deduct an amount equal to 57.5% (rather than 15%) of the business portion of a new depreciating asset in the year you add it to the pool. In later years, the asset will be depreciated under the general small business pool rules.

For assets that were acquired in the period 1st July 2019 to 11th March 2020 and the assets cost more than \$30,000, the asset can be placed into the small business simplified depreciation pool, depreciated at 15% in the first income year and 30% each income year thereafter.

### Prepayments

Small business entity taxpayers are entitled to a deduction for prepayments where the relevant services will be wholly provided within 12 months of the date of expenditure, such as office supplies, stationery, rent and advertising etc.

### General Deductions

- **Staff Bonuses** – ensure a cheque has been written or payments 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 when cashing in holidays, the payment is made before 30th June 2020.

- Superannuation – for the year ending 30th June 2020, superannuation contributions can be paid for any eligible person:
  - Up to 65 years of age – \$25,000 maximum cap
  - People aged 65 – 74 must be working for a minimum of 40 hours in any 30 consecutive day period to make voluntary contributions to their superannuation account. This is known as the “Superannuation Work Test”.
- 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 2019/20. If you are aged under 65, the bring-forward rule lets you make up to \$300,000 of non-concessional contributions over 3 years. If you are aged 65 to 74 you can make voluntary superannuation contributions in the first year after you retire without satisfying the work test, if you have less than \$300,000 in your superannuation account at the end of the previous financial year. You can only have \$1.6 million in superannuation in retirement funds used to commence a retirement income stream. (Taxation on earnings of a superannuation fund in retirement income stream is 0%).
- Superannuation Minimum Contributions – superannuation contributions must be paid for all eligible employees who are paid, at least, \$450 gross per month. Payments for employee’s superannuation via the Super Clearing House, must be paid by no later than 23 June 2020 to ensure they will be deductible for the 2020 financial year.
- Interest on Loan Funds – interest can be claimed on loans taken out for business purposes or to purchase income producing properties and shares in companies.
- Repairs and 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 – away for more than 6 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 – \$0.68 per kilometre (can 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 then use 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 – is not deductible unless it is provided as a fringe benefit and Fringe Benefit Taxes have been paid.
- Gifts – ensure payment is made to a tax-deductible charity on or before 30th June 2020.
- Audit Fees – deductible if there is a contract that creates a presently existing liability before 30th June 2020.
- Salary Packages – ensure salary packages are negotiated and documented for 2020/21 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 and Development expenditure for companies with turnovers under \$20 million – a company will receive the benefit of a research and development tax incentive offset calculated at 43.5% of the eligible research and development expenditure spent during 2019/20. For companies with turnovers under \$20 million, the tax offset can be paid to the company by the Australian Taxation Office within 30 days of lodgement of the company’s income tax return, if the company elects to receive this payment in the company’s income tax return. It is important to note that, for the research and development claims in respect of the year ended 30th June 2020, the company must register with AusIndustry by 30th September 2020 (extended because of COVID-19 coronavirus from 30th April 2020).

The Department of Industry, Innovation and Science has announced that, because many businesses are facing difficult economic circumstances due to the recent bushfires 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.

### **Stock**

Trading Stock Rules – small business entities (turnover under \$10 million) do not have to account for changes in trading stock or prepare a stocktake for taxation purposes, where the difference between the opening value of stock and a reasonable estimate of the closing stock is \$5,000 or less.

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