CBSW
TAX & BUSINESS ADVISORS

Providing you professional direction

Monthly Information Newsletter – Tax & Super

June 2022

30 June Tax Planning

As we move towards the end of the 2021/22 financial year, there are a number of year-end income tax planning opportunities that may be available to optimise your tax position.

Temporary full expensing

Are you contemplating asset and equipment purchases? If so, consider getting in before 1 July to take advantage of temporary full expensing (TFE).

TFE supports businesses and encourages investment, as eligible businesses can claim an immediate deduction for the business portion of the cost of an asset in the year it is first used or installed ready for use for a taxable purpose in your business (rather than depreciation deductions being spread out over a number of years). This improves cashflow which can be a big problem for small businesses in particular.

Eligible assets include most business-related assets including new or second-hand equipment, furniture, computers, machinery, vehicles etc. (note however that vehicle claims may be capped by the car limit). Ineligible assets include certain primary production assets and buildings or other capital works.

You'll be able to claim in 2021/22 if the asset is first used or installed ready for use between 7.30pm AEDT on 6 October 2020 and 30 June 2022. Any business with an aggregated turnover of less than $5 billion is eligible to use TFE.

Crystalise capital losses

Have you made capital gains in 2021/22? If so, in consultation with your advisors, it may be worth considering crystalising any capital losses you are currently sitting on. For background, if you have made a capital gain from your investments, it will be added to your other income and taxed at your marginal tax rate which could be as high as 45% if you hold the asset personally.

However, capital losses can offset capital gains and in doing so reduce your tax liability. This strategy may be considered for example where you are holding underperforming CGT assets which you and your advisors consider have little prospect of growth moving forward. By contrast, if an underperforming asset has good potential for future growth, then you may not be inclined to sell it.

Each scenario should be judged on its own merits in consultation with your advisors. By no means should tax be the sole driver of your investment decisions. Keep in mind that for CGT purposes a capital gain/loss generally occurs on the date you sign a contract, not when you settle on a property purchase.

If there is no contract of sale, the gain or loss occurs usually when you stop being the asset's owner. For example, if you sell shares, the gain or loss happens on the date of sale.

Knowing which financial year the gain/loss will be attributed to is important when tax planning.

Write-off bad debts

Businesses should review their aged debtors to determine if any debts are not recoverable. If so, by writing them off as bad debts before 1 July 2022, you may be able to claim a tax deduction for the full amount of the debt in 2021/22. For a debt to qualify as 'bad', there must be little or no likelihood of recovery. Records should be kept to demonstrate that you have taken reasonable steps to recover the debt prior to writing it off.