Tax Planning 2014-15

KEN*NOTES NEWSLETTER

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TAX PLANNING 2014/15

It is that time of the year again as we close in on another end of financial year. There have been several changes that apply to the 2014/15 income year and there may be advantage to you in acting on these items before 30 June 2015.

This tax planning newsletter will look at general tax planning measures for Individuals and Small Businesses. This issues will also address superannuation, thresholds for PAYG instalment payers, GST, review the budget and how the measures introduced may impact your business. To conclude, we leave you with Kennedy & Co's Top Ten Tips!

Please do not hesitate to contact any of the Directors or staff at Kennedy & Co so we can discuss your individual needs and make the tax season a lot less stressful for you. We hope you all have a successful end to the financial year.

KENNEDY & Co
Chartered Accountants

TAXABLE INCOME CONSIDERATIONS

Whilst there are no changes to the individual income tax rates, the 2014/15 Federal Budget did introduce the 2% Budget Repair levy and the additional 0.5% Medicare levy to fund the National Disability Insurance Scheme that will be levied on taxable income greater than $180,000, for the year ending 30 June 2015. This results in the top marginal rate for individuals to be 49%, rather than 46.5%.

Whilst the budget repair levy will continue for only a three year period, the NDIS levy is permanent. For example, subject to cash flow requirements, you may look to setting your term deposit maturity date to be after 1 July rather than before 30 June. This will have the impact of deferring interest income to the next financial year.

If you are expecting lower income in the 2016 income year, say for example, due to retirement, or any other reason, consider deferring income until after 1 July, where you may be in a lower tax bracket.

If you are a primary producer and are expecting a permanent reduction of income, from say, winding down activities, consider withdrawing from the income averaging system. Once you elect to opt out of the averaging system, then you cannot opt back in, so your circumstances must be a permanent reduction of primary production income. Further to this, you may wish to consider making deposits/withdrawals to/from your Farm Managed Deposits, depending on your situation.

MAXIMIZE YOUR DEDUCTIONS

In addition, you may wish to accelerate your deductions. For example, the payment of subscriptions and association fees are generally deductible if paid one year in advance, prepay interest on income producing borrowings i.e. rental property investment loans, margin loans for share portfolios etc.

PAY AS YOU GO (PAYG) INSTALMENTS

The thresholds for entry into the PAYG instalments system have been increased. This will result in fewer taxpayers having to pay PAYG instalments. If you are affected, you may have already been notified by the Tax Office.

From a cash flow point of view, if you still want to pay instalments towards your end of year tax liability, you can voluntarily re-enter the PAYG instalment system.

Set out below are the new PAYG instalment entry and exit thresholds:

- $4,000 for business or investment income
- $1,000 adjusted balance of assessment
- $500 notional tax.

Entities with less than $2 million gross business or investment income who are registered for GST are no longer required to remain in the system if they have a zero instalment rate. If these thresholds apply to your situation, please contact us with a view to vary your instalment for the June 2015 instalment that is due and payable on or by 28 July 2015.

SUPERANNUATION CONTRIBUTIONS

Maximum levels of concessional or tax deductible superannuation contributions are as follows:

1. > 49 years = $35,000
2. < 50 years = $30,000
3. Any amounts in excess of the limits above will be added to assessable income and taxed at marginal rate, less 15% rebate.

Care should be taken in making concessional contributions if you receive any salary income, as there are rules around deductibility of contributions. Similarly concessional contributions must be supported by a correctly completed section 290-170 notice which is issued by your superannuation fund. Please contact us directly if you are considering making concessional contributions.

For Non-Concessional contributions, the limit one may contribute is $180,000. There is the "bring forward" rule, whereby you may contribute 3 years contribution of $180,000 per year, being $540,000. There are particular rules relating to the Age / Work test and it would be beneficial to contact us directly with your circumstance in this regard.
Government co-contribution of up to $500 may be available to employees and self-employed taxpayers who have income below $49,488 and make non concessional contributions. Please contact us to discuss your eligibility.

PENSIONS FROM YOUR SMSF OR OTHER SUPERANNUATION FUNDS

For those who have existing superannuation pensions, care must be taken to ensure the minimum required pension is paid in the year to 30 June 2015. Trustees of SMSF's administered by Kennedy & Co will shortly receive a reminder of the minimum pension requirements. Failure to pay minimum pensions will result in a loss of tax free status within the SMSF.

For those in receipt of transition to retirement pensions, there is a maximum pension limit that can be taken, with adverse taxation consequences for exceeding the limit. Further details of the limits applicable to each SMSF are also set out in the pension reminder letter.

There may be taxation advantages in commencing a superannuation pension and strategies exist around re-contribution of pension amounts. Please contact us to assess if there are any taxation advantages applicable to you or your superannuation fund in commencing a pension prior to 30 June 2015.

SUPERANNUATION HOUSEKEEPING

Superannuation "housekeeping" is also a good habit, and prior to 30 June 2015 there are a number of matters you should consider, including:

- Review your investment strategy, is it still appropriate?
- Consider your liquidity needs
- Impact of pensions to be paid (if applicable)
- Impact of death benefits when required
- Consider member insurance
- What are the benefits?
- Is it cost effective?
- Valuation of SMSF assets
- Is independent valuation of real estate required?
- Valuation of private company and private trust investments
- Review ownership of SMSF assets to ensure held in correct name

Please do not hesitate to contact us if we can assist you with any "housekeeping" matters for your SMSF.

GST REGISTRATION

An entity's obligation to become registered for GST purposes depends on two factors – whether they are carrying on an enterprise, and the level of their annual turnover. In general, if they are carrying on an enterprise, and if their annual turnover meets the registration turnover threshold, they must be registered.

The registration turnover threshold is $150,000 for not-for-profit entities and $75,000 for all other entities.

The term "enterprise" has been widely defined by the GST legislation and includes the following:

- a business, trade, or profession;
- a lease, licence or other grant of interest in property;
- certain activities of gift deductible funds, authorities or institutions;
- certain activities of charitable institutions;
- certain activities of religious institutions; and
- certain activities of governments and government corporations.

In addition to specifically including some items, others are specifically excluded from the definition of enterprise. For example, hobbies and private recreational pursuits are not included and are therefore exempt from GST.

An entity may also become registered even if it does not currently fall within the categories listed above. For example, it may be registered even if it intends to carry on an enterprise from a particular date, but is not currently doing so.

If you have any questions on your registrations obligations for GST purposes please contact our office.

ACCOUNTING FOR THE GST - ANNUAL TURNOVER

As you may be aware, GST can be accounted for on either cash or an accrual basis. The level of annual turnover affects which method you can use. If an entity’s annual turnover does not exceed the cash accounting turnover threshold, it may choose which method it will account for GST.

The cash accounting turnover threshold is currently $2,000,000. Where an entity’s annual turnover exceeds this threshold it must account for GST on an accruals basis. In the event your entity’s annual turnover changes from one period to the next as a result of increased turnover, you will need to contact the ATO to report on an accruals method. We are happy to assist you in this regard.

RIDE-SOURCING

The ATO has expressed guidance on ride-sourcing such as Uber. If you drive passengers in a car for a fare you may be providing 'taxi travel' and if you are you need to register for GST. If you provide 'taxi travel' you need to be registered regardless of your turnover. Obviously the legalities of ride-sourcing also need to be considered.

If you have any questions on your registrations obligations for GST purposes please contact our office.

OTHER TAX PLANNING CONSIDERATIONS

Contact us 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.

Family discretionary trusts may need to make a family trust election if the trust has unrecouped losses, or has beneficiaries whose total franking credits for the year may exceed $5,000.

Be sceptical of year-end tax shelter schemes. You should not enter a scheme without advice regarding both its tax consequences and commercial viability.

CAPITAL GAINS & CAPITAL LOSSES

Capital gains and capital losses are generally determined by the date a contract was entered into or at the time of the agreement. If you are entering into a contract to sell property or shares for example, you may consider deferring the execution until the new financial year.

Further to this, you may consider realising capital losses to offset against realised capital gains on other capital assets during the 2015 financial year to date. It is important to consider the taxation anti avoidance provisions when selling capital assets in a loss position solely with the purpose of realising the capital loss particularly where post sale the capital assets are reacquired.

Conversely, consider realising capital gains on capital assets, if you have un-recouped capital losses, or you expect substantially higher income in the 2016 financial year.

BUDGET ANNOUNCEMENTS FOR SMALL BUSINESS

As you may be aware the federal government in their recent budget included expanding accelerated depreciation by allowing small businesses with an aggregated annual turnover of less than $2 million to immediately deduct each asset that cost less than $20,000 (net of GST).

In order to be eligible to claim the deduction in the 2015 financial year, the asset must be first used or installed ready for use by 30 June 2015. We note that this is an accelerated tax deduction and not a rebate or cashback scheme, and as such, should you income be low or your business be in a tax loss position or you are required to defer your non-commercial losses, this additional measure may have little to no benefit to you.

A word of warning, in order for these changes to take effect it still needs to pass the parliament and while there has been some cross-bench support for the measure there is no guarantee of its success.

BUDGET ANNOUNCEMENT FOR PRIMARY PRODUCERS

As you may be aware the federal government in their recent budget included accelerating depreciation for primary producers to allow the following from budget night:

- Immediately deduct the cost of fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills; and
- Depreciate over three years the cost of fodder storage assets such as silos and tanks used to store grain and other animal feed.

A word of warning, in order for these changes to take effect it still needs to pass the parliament and while there has been some cross-bench support for the measure there is no guarantee of its success.

CHANGES TO THE MINIMUM WAGE

From 1 July 2015, the National Minimum Wage will increase to $656.90 per week or $17.29 per hour as a result of the Annual Wage Review. Accordingly, wage rates calculated under Modern Awards will also increase by 2.5% rounded up to the nearest 10 cents. The Fair Work Commission are updating the figures contained in the individual awards to provide employers with updated figures for 1 July 2015.

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TEN TAX TIPS

1 Get Organised

Still too many people leave their tax until just before the deadline. By getting your documents together soon after the end of the financial year it will be fresh in your head, out of the way and you will be able to use the information regarding your taxation position to make timely decisions.

2 Review your Private Health Insurance Rebate Levels

The private health insurance rebate is dependent on your taxable income. To avoid paying back a component of private health insurance upon lodgement of your income tax return you need to ensure you are claiming the correct level of rebate.

3 Accelerated Deductions

If you are a small business you may be able to accelerate your depreciation by pooling assets. Pooled assets depricate at 15% in the year of purchase and then 30% every year after that. Following the budget announcements, small business entities can claim an immediate deduction for assets costing up to $20,000 (ex GST if you're registered) and will receive the deduction for the year ending 30 June 2015 the asset is acquired on or before 30 June 2015.

4 Update your Motor Vehicle Logbook

You may be able to claim greater deductions if you are using your motor vehicle for work regularly. Logbooks must span over 12 weeks and they help keep track of your business and private use percentage. Logbooks should be no more than 5 years old and should be replaced if the usage changes by more than 10%. Please contact our office if you require one.

5 Use a credit card or eftpos for tax deductible expenses

The ATO now recognise bank and credit card statements as proof of claim for individual tax payers, this means you don't have to keep receipts for items on the statements. However, we recommend you keep invoices where possible.

TEN TAX TIPS

6 Salary Sacrificing to Superannuation

A great way to increase your retirement income, by contributing your before-tax pay to your superfund. The contribution has a 15% tax rate instead your marginal tax rate which could be as high as 47%. You must earn above $37,000 to make this tax effective. It is important to consider the implications of investing in superannuation together with the concessional contribution limits.

7 Super Contribution

If you earn less than $49,488 for the 2014-2015 year and you contributed to your super fund you may be eligible for the super co contribution. For every dollar you contribute from you after-tax income the Government may put up to 50 cents, up to a maximum of $500.

8 Home Office Costs

If you work from home you can claim home office costs such as a portion of your telephone, internet, stationery, computer equipment and printers. If you keep track of the hours you work from home, you can even claim 34 cents per hour deduction for electricity, gas and deprecation of furniture.

9 Obsolete Stock

For small business outdated or obsolete closing stock may be increasing your assessable income. If you have obsolete stock you should consider writing it off so that you can claim a tax deduction or give it an appropriate value so closing stock on hand isn't too high. It is important to do an annual stocktake.

10 Tax Planning

If you are self employed, you do not receive any superannuation contributions unless you make a personal contribution which is tax deductible where less than 10% of your taxable income is from employment income. To take advantage of this, ensure that your contribution is received to your fund before 30 June 2015. The concessional contribution cap for the 2015 financial year is $30,000 (under 50yrs) and $35,000 (over 50yrs).