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Tax Planning Bulletin

Tax planning

There are many ways that entities can defer income, maximise deductions and take advantage of other tax planning initiatives to manage their taxable income. Taxpayers should be aware that they need to start the year-end tax planning process early in order to maximise these opportunities. Of course, those undertaking tax planning should be aware of the potential application of anti-avoidance provisions. However, if done correctly, tax planning can provide a number of tax savings.

Deferring assessable income

- Income received in advance of services being provided is generally not assessable until the services are provided.
- Taxpayers who provide professional services may consider, in consultation with their clients, rendering accounts after 30 June in order to defer the income.
- A taxpayer is required to calculate the balancing adjustment amount resulting from the disposal of a depreciating asset. If disposal of an asset will result in assessable income, the taxpayer may consider postponing the disposal to the following income year.
- Rollover relief may be available for balancing adjustments arising from an involuntary disposal of assets where replacement assets are acquired.

Maximising deductions

Business taxpayers

- Review all outstanding debts before year-end to identify any debtors who may be unable to pay their bills. Once you have done everything in your power to seek repayment of the debt, you may consider writing off the balance as bad debt.
- Corporate tax entities' entitlements to deductions for prior year losses are subject to certain restrictions. An entity needs to satisfy the "continuity of ownership" test before deducting prior year losses. If the continuity of ownership test is failed, the entity may still deduct the loss if it satisfies the same business test.
- A deduction may be available on the disposal of a depreciating asset if you stop using it and expect never to use it again. It's a good idea to review asset registers for any assets that fit this category.
- Small business entities are entitled to an outright deduction for the taxable purpose proportion of the adjustable value of a depreciating asset, subject to certain conditions.

Non-business taxpayers

- Non-business taxpayers are entitled to an immediate deduction for assets that are used predominantly to produce assessable income and that cost $300 or less, subject to conditions.
- Self-employed and other eligible people are entitled to a deduction for personal superannuation contributions, subject to meeting conditions.

Companies

- Companies should ensure that all dividends paid to shareholders during the relevant franking period (generally the income year) are franked to the same extent, to avoid breaching the "benchmark rule".
- Loans, payments and debts forgiven by private companies to their shareholders and associates may give rise to unfranked dividends that are assessable to the shareholders and their associates. Shareholders and entities should consider repaying loans and making payments on time, or have appropriate loan agreements in place.

HG Khouri & Associates Services Pty Ltd A.B.N. 26 001 893 214
"Copes Cottage" 312 George Street, Windsor NSW
PO Box 151 Windsor NSW 2756
T: (02) 4577 6033 • F: (02) 4577 4825 • E: hgkhouri@hgk.com.au

- Companies should consider whether they have undertaken eligible research and development (R&D) activities that may be eligible for the R&D tax incentive.
- Companies may consider consolidating before year-end to reduce compliance costs and take advantage of tax opportunities available as a result of the consolidated group being treated as a single entity for tax purposes.

Trusts

- Taxpayers should review trust deeds to determine how trust income is defined. This may have an impact on trustees' tax planning.
- Trustees should consider whether a family trust election (an FTE) is required to ensure that any losses or bad debts incurred by the trust will be deductible and that franking credits will be available to beneficiaries.
- Taxpayers should avoid retaining income in a trust, because it may be taxed in the hands of the trustee at the top marginal tax rate.

Small business entities

- From 1 July 2016, the small business turnover threshold has increased from $2 million to $10 million. However, thresholds for the small business CGT concessions remain at $2 million turnover or $6 million net asset test and small business tax discount has a $5 million turnover threshold.
- In addition, from 1 July 2016, the income tax rate applicable to small business companies carrying on a business has reduced to 27.5%. The reduction will progressively apply to other companies based on their aggregated turnover in the years in question.
- Small business entities are entitled to an immediate deduction for certain pre-business expenditure.
- Eligible small business entities can access a range of concessions for a capital gain made on a CGT asset that has been used in a business, provided certain conditions are met.
- An optional rollover is available for the transfer of business assets from one entity to another for small business owners who change the legal structure of their business.
- A CGT "look-through" treatment is available for eligible earnout arrangements.

Capital gains tax

- Taxpayers may consider crystallising any unrealised capital gains and losses to improve their overall tax position for an income year.

Superannuation

- From 1 July 2017, the concessional contributions cap will be reduced to $25,000 (this includes employer contributions, salary sacrifice contributions, insurance premiums paid by an employer) and the non-concessional cap will be reduced to $100,000 for all super fund members
- Individuals who have not already reached their concessional or non-concessional contribution cap for the 2016–2017 tax year should consider making more contributions before 1 July 2017, when the reduced caps will be introduced.
- Individuals with salary sacrifice superannuation arrangements may want to have early discussions with their employers to help ensure contributions are allocated to the correct financial year.

Individuals

- For the 2016–2017 income year, the general tax-free threshold available to Australian resident taxpayers is $18,200.
- The temporary 2% debt levy that was introduced in 2014–2015 on taxpayers with a taxable income in excess of $180,000 is due to expire on 30 June 2017.
- When the levy expires, there are advantages for affected taxpayers to defer recognising income and capital gains until after 30 June 2017 and to accelerate deductions prior to 30 June 2017.