June 2014 Newsletter

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Be on the Front Foot– it's the EOFY!

The end of financial year (EOFY) is fast approaching, it's time to review the last few months and undertake some tax planning, as well as get your records in order to complete your compliance obligations for the 2013/14 financial year.

Following are some basic steps to make your life easier when it comes to preparing your business for the end of the financial year.

Businesses are required to keep records for 5 years after lodging their tax return. Being organised with your business records greatly improves efficiency in preparing your BAS and income tax return. More importantly, being organised helps in tracking the financial health of your business.

As a part of your end of financial year plan you should prepare:

- A bank reconciliation as at 30 June 2014
- A listing of accounts receivable (people who owe you money) as at 30 June 2014.
- Review your accounts receivable and write off any invoices that you believe won't be recovered (bad debts).
- A listing of accounts payable (people that you owe money) as at 30 June 2014.
- A stock take on 30 June 2014
- Employee PAYG Payment Summaries and Superannuation records for the financial year, reconciled to your payments for the year.

Be aware that the superannuation guarantee rate is increasing on 1 July 2014 from 9.25% to **9.5%** - ensure your payroll system is ready for this change.

The end of financial year is an ideal time to look at your business as a whole. A great place to start is with your business plan. A good business plan outlines where your business is at now and its future goals. The plan considers short and long term goals (giving a time period to achieve these) and the costs/estimated rewards for achieving these goals. Your business plan doesn't have to be a formal document, just something you can refer to in assessing how your business is tracking, and it's never too late to put a plan in place.

Take the time to look back on the past year and ask yourself has my business achieved what I wanted it to? Were there situations during the year where processes could have been improved? What can I do better in the coming year to improve my business? What do I want my business to achieve in 2014/15?

Just like keeping good records, having a plan for your business enables you to monitor the business' financial health and overall direction.

Inside this issue:

Contractor vs Employee

What's the issue?

The use of contract labour has increased significantly over the past decade. It is seen as a more flexible form of engagement, matching costs to activity without all the responsibilities of employment (PAYG withholding, superannuation guarantee, workers' compensation, payroll tax). As a result many business operators perceive that once they engage contractors and the contractors rate has been agreed, they can ignore the other on cost normally associated with employees such as superannuation & workers' compensation. However, this is not the case. The ATO is targeting this area and they are having a high success rate. As such, business liabilities can accumulate quickly.

Who's at risk?

◊ Businesses that engage with contractors,
◊ Businesses that disclose contractor, subcontractor and commission expenses in their tax return, and
◊ Workers being treated as "contractors".

What happens if you get it wrong?

You will have to pay superannuation guarantee charge on the short fall for each quarter, this will be based on 9.25% of salary and wages paid (not ordinary time earnings), plus interest of 10% per annum, plus an administration charge of $20 per employee per quarter. Superannuation guarantee charge is not tax deductible, The business may also be exposed to PAYG withholding obligations, fringe benefits tax, payroll tax and workers' compensation.

There is no real time limit on the recovery of outstanding SG obligations. In theory the ATO can go back as far as it wants to recover unpaid superannuation contributions for workers who are classified as employees for SG purposes.

An independent contractor is generally engaged to achieve a result, while an employee is contracted to provide their labour which allows the employer to achieve a result.

There are quite a few factors that are considered when deeming a worker as an employee for super guarantee purposes, and each situation will be different. A worker will be treated as an employee if the terms of the contract and the conduct of the parties indicate that:

* the individual is paid for their personal labour and skill
* the individual must perform their work personally (they have no right of delegation)
* the individual is not paid to achieve a result.

Ask your contractor for a copy of their insurance policy, if they don't have insurance they may need to be covered by your business insurance.

To minimize the risk of having contractors deemed to be employees businesses should implement written arrangements with the parties, and ensure the terms of the written agreement are occurring in practice. Key factors that evidence a contractor relationship include:

◊ The contractor has the ability to decide how the work is performed.
◊ The contractor is free to delegate work to other parties.
◊ The contractor will only be entitled to payment on successful completion, within the agreed timeframes.
◊ The contractor is liable for the costs of rectifying any defects and is required to hold appropriate insurance coverage.
◊ The contractor is responsible for providing their own tools, plant and equipment to perform the work.
◊ The contractor is responsible for meeting expenses which arise in the course of carrying out their work.

Less Red Tape for Workers Compensation

Your insurer now presets your premium for the coming period and tells you what it is 4-6 weeks before your policy is due for renewal. This gives you time to plan your budget for the year ahead and ensures no surprises. You no longer have to estimate wages you expect to pay next year due to the pre-set premiums. Your renewal date is now at month end to make it easier to calculate and report your actual wages at the end of the policy period. The majority of insurers have moved to online reporting for your actual wages, and you now have 4 months after your policy expires to report to your insurer.

Rental Properties

The Australian Taxation Office is targeting more than 110,000 rental property owners who have been identified through previous year's tax returns as making incorrect claims. The ATO is using new data matching techniques including monitoring property transaction details to target property investors, ensuring the correct amount of tax is paid.

Expenses for your rental property can only be claimed for the portion of the year where the rental property is rented or available for rent. Expenses that cannot be claimed include those incurred while the owner is occupying the property.

The cost of initial repairs at the time of purchase are not deductible. Expenses for wear and tear or other damage that occurred as a result of renting the property may be deductible, while the property is generating income.

Ensure that any claims of interest on borrowings for investments can be clearly separated from interest on borrowings of a personal nature.

In order to prepare your income tax return you will need to provide us with an agents rental statement as well as receipts for any expenditure incurred personally. Examples of deductible expenditure you may have include:

⇒ Insurance– landlord & building
⇒ Rates & water
⇒ Land Tax
⇒ Cleaning, gardening and lawn mowing
⇒ Pest control
⇒ Advertising for tenants
⇒ Legal expenses for preparing a lease or evicting non paying tenants
⇒ Interest & bank charges (refer above regarding separation from personal claims)
⇒ Repairs and maintenance
⇒ Property agent fees and commissions
⇒ Postage, stationery & phone calls (regarding the property)
⇒ Travel to inspect the property during the year

For any larger expenses for plant and equipment (such as hot water systems) or major repairs a tax invoice is required to substantiate these claims. You may be able to claim a deduction (2.5% per year for 40 years following the construction) of buildings, extensions, alterations, kitchen and bathroom renovations. Consider obtaining a professional quantity surveyor's report for applicable depreciation deductions, the cost is tax deductible and will help you maximise your depreciation deductions. For more information call our office.

Individual Income Tax Rates for 2013/14

Residents:

Taxable income	Tax on this income
0-$18,200	Nil
$18,201- $37,000	19c for each $1 over $18,200
$37,001- $80,000	$3,572 plus 32.5c for each $1 over $37,000
$80,001- $180,000	$17,547 plus $37c for each $1 over $80,000
$180,000 and over	$54,547 plus 45c for each $1 over $180,000

The above rates do not include the Medicare Levy of 1.5%. *From 1 July 2014 the Medicare levy rises to 2%*

Can you plan around the 2% debt tax?

The introduction of the debt tax, or the Temporary Budget Repair Levy as it is formally known, may be the only certainty in the Government's first Federal Budget delivered on 13 May.

The rest – co-payments for doctors visits, deregulated university fees, cuts to family benefits, tightening of access to disability pensions, increasing the pension age to 70 etc., - are unlikely to see the light of day in their current form.

For those likely to be affected by the debt tax, the most common questions asked are; will the debt tax become law and, will I have to pay it? The answer is probably yes, and it depends.

The Labor Party has stated it will not stand in the way of the debt tax but the Greens have come out in opposition to the tax and instead want more permanent reform "By shaving the top off the multi-billion dollar profits of big mining and banking corporations." However, with Labor's support for the tax, the legislation has a majority in both the House of Representatives and the Senate regardless of the position of the Greens.

What is the tax and who will pay it?

The debt tax will apply from 1 July 2014 until 30 June 2017. The tax is payable at a rate of 2% on every dollar of a taxpayer's annual taxable income over $180,000. In effect, the top marginal tax rate will become 49%.

Be aware that if you have a one-off spike in income after 1 July 2014, for example from the proceeds of a sale of business, the debt tax is likely to impact on this one-off increase in personal income.

Individuals with a taxable income of $180,000 or less will not pay the levy except where their income (or part thereof) is subject to some other tax rate based on the top personal marginal tax rate. For example, the debt levy will apply to the unearned income of minors once income is above $416. This is generally where income is distributed to a minor through a family trust. This is the Government's way of ensuring people cannot avoid the debt tax by simply distributing more income to their kids through a family trust.

The debt tax will also apply to non-resident taxpayers, for example where a non-resident is a beneficiary of an Australian trust.

In conjunction with the debt tax, the Fringe Benefits Tax rate will increase to 49% to prevent anyone using the FBT system to avoid paying the tax. The FBT rate will increase from 47% to 49% from 1 April 2015 until 31 March 2017.

For employees of charities, not-for-profits and certain other entities, the exemption threshold from FBT will increase to ensure that the total value of cash benefits received by these employees are not affected.

Can you plan around the debt tax?

Yes, you can. The difference in timing between the introduction of the debt tax on 1 July 2014, and the increase to the FBT rate on 1 April 2015, means that you have 9 months to utilise an effective salary sacrifice agreement and bring your taxable income below the $180,000 threshold for the year ending 30 June 2015. Plus, you have another opportunity to reduce your taxable income when the FBT rate is reduced from 1 April 2017 until the debt tax is removed on 30 June 2017. In effect, it is possible in some circumstances to utilise effective salary sacrifice agreements to reduce your taxable income below the debt tax threshold level for the 2015 and 2017 income years.

Just be aware that there are certain rules that must be followed for a salary sacrifice agreement to be effective. No doubt this will be an area that the Australian Taxation Office (ATO) will be looking at very closely in future years.

Talk to us today about the tax planning opportunities available to you.

Simple Tax Saving Strategies

Making contributions to super

In order to claim a tax deduction in the 2014 financial year the superannuation fund must receive the contribution by 30 June 2014 viz. the payment must have cleared your business bank account before 30 June 2014. For personal superannuation contributions the concessional limit is $25,000 for persons under 60 years and $35,000 for those between 60 and 75 years. Remember your employment superannuation guarantee counts towards this cap, so to avoid excess contributions tax remain within these limits.

Small business concessions

Small Business Concession taxpayers can make prepayments (up to 12 months) on expenses (e.g. loan interest, rent, subscriptions) BEFORE 30 JUNE 2014 and obtain a full tax deduction in the 2014 financial year.
If your business is a small business entity (turnover less than $2 million) then it is proposed (bill has not been passed yet) from 1 January 2014 that the following tax concessions apply:

- depreciating assets (including motor vehicles) valued at less than $1000 will be immediately deductible
- depreciating assets valued at more than $1000 will be depreciated in one pool at a rate of 15% in the first year and 30% in subsequent years.

Defer income

Subject to cash flow requirements, delay issuing invoices and or receiving cash/debtor payments until after 30 June 2014. This spans to investment income also, if practical arrange for interest on term deposits and the contract date for the sale of capital gains tax assets to occur after 30 June 2014.

Bring forward expenses

Purchase consumable items before 30 June 2014. Consumables include stationery and office supplies.
Make payments for repairs and maintenance before 30 June 2014.

Tools of trade/FBT exempt items

The purchase of Tools of trade and other FBT exempt items for business owners and employees can be an effective way to buy equipment with a tax benefit. Items that can be packaged include handheld/portable tools of trade, computer software, notebook computers, personal electronic organisers, digital cameras, briefcases, protective clothing and mobile phones. You need to buy these items before 30 June 2014 to claim a deduction.

Investment Property depreciation

If you own a rental property, having a quantity surveyor prepare a property depreciation report will allow you to claim the maximum amount of depreciation and building write off deductions on your rental property.

Trustee Resolutions– Income Distributions

Ensure that trustee resolutions are prepared and signed before 30 June 2014.

Giving to Charity

Make a donation now and claim the deduction this year. If you donate monthly to charities, think about paying the full year's worth of donations upfront and take the deduction now.

Operate through a company? If you operate through a company structure and the company has advanced you money during the year or paid expenses on your behalf, then work out whether you are going to repay the loans or put in place a complying loan arrangement. If you already have loan agreements in place from prior years, make sure that you make the minimum repayment including interest before June 30. If the company normally declares a dividend to cover these loan repayments, make sure the dividend is declared and set-off against the loan balance before 30 June.

Are your salary sacrifice agreements still relevant? If you have existing salary sacrifice agreements in place, review them to make sure they are still viable. Also, if your taxable income is over $180,000, don't forget about the debt tax (see the article, can you plan around the debt tax).

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2014 is the second year of the Building and Construction Industry Annual Reporting Regime.

The annual report is due on **21 July 2014**

This is a report listing each contractor you have used for the financial year. You are required to report to the ATO the name, ABN, address and gross amount you paid to each contractor during 2013/14.

If you require any assistance in completing and lodging the taxable payments annual report by the due date please call our office and make an appointment to see your accountant.

What's changing on 1 July 2014?

Individuals

- **Temporary Budget Repair Levy.** Adds 2% to the tax rate for every dollar of a taxpayer's annual taxable income over $180,000
- **Increase in the Medicare Levy** from 1.5% to 2%
- **Superannuation Guarantee charge increases** from 9.25% to 9.5%.
- **Aged care reforms** introduce new assets tests for resident's accommodation and care fees

SMSFs

- **New SMSF trustee penalties**. From 1 July 2014 the ATO has greater powers to enforce the superannuation rules by levying financial penalties directly on trustees.
- **Concessional contribution cap changes.** From 1 July 2014, the concessional contribution cap for taxpayers up to the age of 50 is $30,000. And for those 50 to 75 years, the cap is $35,000.
- **Non-concessional cap changes**. The non-concessional contributions cap from 1 July 2014 is $180,000 (up from $150,000) or $540,000 over 3 years (for those under 65).
- **Insurance inside an SMSF**. From 1 July 2014, new insurance policies within a SMSF must be consistent with the death, terminal illness, and permanent and temporary incapacity conditions of release in the Superannuation Industry (Supervision) Act.

Business

- **Superannuation Guarantee charge increases** from 9.25% to 9.5% for employees., ensure your payroll system is ready for this change.
- **R&D incentive reduced**. In the 2014/2015 Federal Budget, the Government announced that the Research & Development Tax Incentive will be reduced by 1.5% from 1 July 2014. This means the refundable offset will be reduced to 43.5% while the non-refundable offset will be reduced to 38.5%. While it is uncertain whether the legislation enacting this change will pass the current Parliament, businesses undertaking R&D activities this year may want to consider bringing forward expenditure to maximise their claim
- **Living away from home allowance (LAFHA) transitional period ends** on 30 June 2014. Now, the main condition to be satisfied is that the employee must have a normal place of residence in Australia that is maintained for their "personal use and enjoyment" while they are living and working in another location. This means that the employee cannot rent out their usual residence while they are away. In most cases, LAFHAs will also be time limited to 12 months. So, employers can still pay a concessionally taxed LAFHA for another 12 months from 1 July 2014. If the employee is working on a fly-in- fly-out or drive -in drive-out basis the LAFHA is not subject to the 12 month limit.