smart
BUSINESS SOLUTIONS
Financial Planning

Preparing for End of *financial year*

May 2022

PREPARING FOR THE END OF FINANCIAL YEAR

As we approach the end of the financial year, there are a number of smart strategies you could consider to help streamline your finances and legitimately reduce your tax liability.

Insurance premiums

Some insurance premiums, such as those for income protection insurance, are generally tax deductible as the proceeds in the event of a claim are taxable to you.

Work-related expenses

Don't forget to keep any receipts for work-related expenses such as uniforms, training courses and learning materials, as these may be deductible for tax purposes.

Prepay investment loan interest

If you have an investment loan, you can prepay up to 12-months' interest in advance. You may be able to claim a tax deduction for the prepayment in this financial year (subject to the relevant prepayment rules), further reducing your taxable income. This may work well if your total taxable income is going to be lower in the next financial year. Consult your tax agent to learn more.

Tax deductions for investment expenses

Expenses you incur while earning assessable investment income may be tax deductible. These expenses may include account-keeping and management fees and interest payments on investment loans. Claiming a tax deduction for these expenses could reduce your taxable income for the financial year, although not all expenses are immediately deductible. Your tax agent can help you determine what can be claimed.

Review ownership structure of investments

Transferring the ownership of your investments to your self-managed super fund (conditions apply) or to your spouse, if they are on a lower marginal tax rate, may reduce the tax you pay on future investment income and capital gains. However, these transfers may have capital gains tax (CGT) implications so you should seek qualified tax and legal advice before proceeding.

Managing capital gains

It's important to assess if you have made any capital gains or losses from your investments. The most common way you realise a capital gain (or capital loss) is by selling assets such as property, shares or managed fund investments. Managed funds also distribute capital gains which you must report in your tax return. The Australian CGT system is quite complex so it's important to consult with your tax agent.

Timing is everything

Some of these strategies can take time to plan and implement. So stay ahead of the curve and get in touch with your tax agent soon to find out how you can plan to get the most out of this end of financial year.

EOFY tax strategies for small business

When times are tough, small businesses need all the help they can get. We take a look at the tax concessions that may be available to your small business and strategies you may be able to use to minimise your end of financial year tax liability.

The Instant Asset Write Off

The Government has increased the Instant Asset write-off threshold from $30,000 to $150,000 for all businesses with an aggregated annual turnover of less than $500 million until 30 June 2021.

Eligible businesses will be able to immediately deduct purchases of eligible assets each costing less than $150,000. The threshold applies on a per asset basis, so eligible business can write off multiple assets.

The Instant Asset Write Off applies until 30 June 2021, for assets first used or installed ready for use between 12 March 2020 and 30 June 2021 and purchased by 31 December 2020.

Backing Business Investment

The Government introduced a time limited 15-month investment incentive to support business investment, by accelerating depreciation deductions.

Business with an aggregated turnover below $10 million can deduct 57.5% of the cost of an eligible asset in the first year of use or installation, while other businesses with aggregated turnover below $500 million can deduct 50% of the cost of an eligible asset in the first year of use or installation plus the usual depreciation that would apply for that year (after allowing for the 50% deduction).

Existing depreciation deduction rules then apply to the balance of the asset's cost.

Eligible assets are new assets that can be depreciated under Division 40 of the ITAA 1997 acquired after the government's stimulus package announcement (12 March 2020). These assets must be first used or installed ready for use by 30 June 2021. This does not apply to second-hand assets, assets subject to low value and software development pools, or buildings and other capital works deductible under division 43. Some other exclusions apply.

Temporary full expensing

Eligible business are able to deduct (in the first year of use or installation) the business portion of the cost of eligible depreciating assets purchased and first used or installed ready for use between 6 October 2020 and 30 June 2023.
Business with aggregated turnover of less than $5 billion can deduct the business portion of the cost of eligible new depreciating assets or the full cost of improvements to existing eligible assets.

Businesses with aggregated turnover of less than $50 million can also deduct the business portion of the cost of eligible second hand depreciating assets.

Expense prepayments
Eligible businesses can claim an immediate deduction for prepaid expenses where the goods or services to be provided are for a period of 12 months or less and ends before the end of the next financial year.

Capital gains tax (CGT)

Small businesses may be eligible for a range of CGT concessions, which may provide substantial tax savings. These concessions are available to small business owners who have disposed of active assets in the current financial year, or who are looking to dispose of an active asset. To be eligible for these concessions, the business must qualify as a small business entity or have net assets of $6 million or less (note, a range of other eligibility criteria applies depending on the small business CGT concession being claimed).

Pay as you go (PAYG) tax

Small businesses should review their PAYG installments and notify the Australian Taxation Office (ATO) if the expected profit for this financial year is lower or higher than previous years, so installments can be adjusted accordingly.

Lease repayments

Make repayments before 30 June to ensure a deduction can be claimed.

Office expenses

Purchase any necessary office equipment before the end of the financial year so you can claim these expenses. Ensure you have kept receipts for purchases made throughout the year.

Superannuation

Ensure any eligible superannuation contributions are made no later than 30 June so you can claim the deduction in this financial year.

Ensure that required super guarantee (SG) contributions for employees of the business are made by no later than 28 days after the end of the quarter, so that no super guarantee charge becomes payable to the ATO.

Log books

Check that all of your motor vehicle log books satisfy the substantiation requirements.

Changing tax rates for 'base rate entities'

To be a base rate entity, a company must have aggregated turnover for the year of income less than the thresholds shown in the table below. In addition, from 1 July 2017, an entity company will only be a base rate entity if no more than 80% of its assessable income for the year of income is 'base rate entity passive income'. This includes: distributions, franking credits, interest, royalties, rent, gains on qualifying securities and net capital gains.

The thresholds for the aggregated turnover of base rate entities, and their applicable tax rates are as follows:

Financial year	Aggregated turnover (determined at the end of the year)	Tax rate
2017-18	less than $25 million	27.5%
2018-19 to 2019-20	less than $50 million	27.5%
2020-21	less than $50 million	26%
2021-22 and future years	less than $50 million	26%

Source: Australian Tax Office, Changes to Company Tax Rates, https://www.ato.gov.au/Rates/changes-to-company-tax-rates/.

In addition, the unincorporated small business tax offset of up to $1,000 is available. From 2021-22, the offset is 16% of your basic tax liability relating to eligible net business income.

EOFY superannuation tax strategies

As we approach the end of the financial year, there are a number of smart strategies you could consider to help you effectively reduce your individual tax liability.

Salary sacrifice

Currently, most employees receive super guarantee (SG) contributions from their employer of at least 10%[1] of their salary. Adding to these contributions directly from your gross (pre-tax) salary can be an easy and tax-effective way to top up your super. This is called salary sacrifice.

Some of the benefits of salary sacrifice are:

- It's simple, automatic and consistent.
- You do not pay income tax on salary sacrifice contributions to super (up to certain limits). Your super contributions are generally taxed at 15%[2], which may represent a significant tax saving, depending on your marginal tax rate.
- By making a salary sacrifice contribution, you can reduce your taxable income.
- The difference in taxation may mean more money is available to invest in super than if you were to receive the money as after-tax income and then invest it.
- Future earnings on contributions made to super are concessionally taxed at a maximum of 15%.

Note that you are subject to a general concessional contributions cap of $27,500 for the 2021-22 financial year. However, you may have a higher concessional cap for the financial year if you're eligible to carry forward unused concessional cap amounts from previous years. SG contributions and personal tax-deductible contributions also count towards your concessional cap.

Personal tax-deductible contributions

Prior to 2017-18, only people who were substantially self-employed or earning passive income could claim a tax deduction for personal superannuation contributions.

However from 2017-18, this requirement has been removed so that all eligible contributors can claim a tax deduction for their personal contributions. This means that employees who were previously unable to make a personal tax-deductible contribution may now be eligible.

While still subject to the concessional contributions cap of $27,500 (or a higher amount if you're eligible to carry forward unused concessional cap amounts from previous years), this strategy may prove timely if you have made a considerable capital gain from the sale of a property or shares – as your deductible contribution to your super fund may help to offset your assessable capital gain. Not only could it reduce your marginal tax rate, it may also boost your super balance for retirement.

Note that if you are not able to claim your super contributions as a tax deduction (for example, your income for the year is too low), they will be treated as after-tax (non-concessional) contributions.

Take advantage of the government co-contribution

To encourage you to save for your retirement, if your total income[3] is $41,112 pa or less and you make a $1,000 personal after-tax contribution to super, the Government will contribute $500 to your super.

The co-contribution is calculated as 50% of your after tax contribution, but the maximum $500 government co-contribution also reduces by 3.333 cents for every dollar you earn over $41,112 pa and ceases once your total income reaches $56,112 pa.

When determining eligibility for the Government co-contribu-

tion, earnings that are salary sacrificed to super and reportable fringe benefits come under the definition of total income. If you fit within the income thresholds outlined above, and satisfy some other conditions, contributing to your super from your after-tax salary before the end of the financial year may be a great way to top up your super, and get an extra boost from the government.

Other eligibility criteria apply to qualify for a Government co-contribution. Your financial adviser can give you the latest updates and more information on this opportunity.

Split super contributions with your spouse

If you have a spouse, you are permitted to transfer certain super contributions from the previous financial year over to the super account of your partner. If the receiving spouse is over preservation age at the time of the split request, he or she must declare that they are not retired. Splits cannot be done once the receiving spouse turns 65. You can do this every year, generally once the financial year has ended. Up to 85% of taxable (concessional) contributions such as SG, salary sacrifice and personal tax-deductible contributions made to super can be transferred (the amount that can be transferred is also limited to your concessional contributions cap).

There are several reasons for considering splitting super with your spouse:

- If you and your spouse are both between preservation age and age 59, withdrawing the money from two member's accounts may result in a larger amount of the withdrawal being tax-free.
- Transferring contributions from the younger spouse to the older spouse could enable you to access more retirement money earlier.
- Transferring money from the older spouse to the younger spouse could enable the older spouse to receive more Age Pension by delaying the date at which their super becomes an assessable asset.
- Splitting superannuation monies does not count towards the receiving spouse's contributions cap.[4]
- To help equalise balances between you and your spouse. From 1 July 2017, a 'transfer balance cap' applies to limit the total amount of super savings you can use to commence retirement phase income streams (where earnings on assets are tax free). This cap is $1.7 million in the 2021-22 financial year. Because this cap applies on an individual basis, equalising super balances between members of a couple can ensure that both members stay below this cap.

Super splitting is not offered by all funds, so you will need to check whether your fund offers this feature.

The benefits of spouse contribution tax offsets

Another potential tax concession is a spouse contribution tax offset. This strategy may be available if you make after tax contributions directly to your spouse's super account – these are known as eligible spouse contributions. To take advantage of this strategy, your spouse will need to be under age 67, or aged 67 to 74 and have satisfied a work test (or qualified for a work test exemption) during the financial year. You can open a super account in your spouse's name and make contributions to that account from your after-tax pay. You can also make these contributions to your spouse's existing super account.

If your spouse's assessable income, reportable employer super contributions and reportable fringe benefits are under $37,000 pa, you will receive an 18% tax offset on the first $3,000 you contribute on their behalf, up to $540 pa. The offset operates on a sliding scale and phases out to zero once their income reaches $40,000 pa.

Other eligibility criteria applies to qualify for a spouse contribution tax offset. Speak with your financial adviser for further information.

A word on contributions caps

When considering any super strategy, it's important to assess how much you are contributing to super in any one year. The Government has set annual limits – known as contributions caps.

The contributions caps for the 2021-22 financial year are:

- $27,500 (indexed) for pre-tax (concessional) contributions, regardless of age.
- You may have a higher concessional cap for the financial year if you're eligible to carry forward unused concessional cap amounts from previous years
- $110,000 for after-tax (non-concessional) contributions, or $330,000 over a three-year period if you are under 67 any time during the first year (this is known as the 'bring-forward' rule).
- In addition:
  - » Your non-concessional cap reduces to Nil once your total super balance (just before the start of the year) is $1.7 million or more.
  - » The cap you have available under the bring forward rule will reduce once your total super balance (just before the start of the first year) is $1.48 million or more.
  - » If you trigger the bring-forward rule in a year, you will miss out on any increase in the standard non-concessional cap that would have applied in year 2 or 3 of your bring-forward period.

Contribution eligibility

In order to make voluntary super contributions, at the time of the contribution, you must be:

- Under age 67

- Aged 67 to 74 and meet the work test (have been employed for gain or reward for 40 hours in a 30 consecutive day period during the financial year) or have qualified for the work test exemption for the year5:
  - » This includes up to 28 days after the end of the month in which you turn 75

Voluntary contributions generally cannot be made once you have reached age 75.

Where you are making eligible spouse contributions for your spouse, the above age and work requirements apply to your spouse.

An exception applies for downsizer contributions, which is a contribution of up to $300,000 from the sale proceeds of your eligible home. While you must be aged 65 or over and meet a range of criteria to qualify, there is no work test or upper age limit required to make a downsizer contribution.

Mini super checklist

- Do I have a record of all my super accounts and contributions?
- Does my employer allow salary sacrifice contributions?
- What are my current contributions for this financial year?
- Can I make a spouse contribution?
- Did I make a contribution last year that I could 'super split' this financial year?
- Should I make a personal tax-deductible superannuation contribution?

Talk to your financial adviser, they can help simplify your end of financial year preparations and ensure you maximise the tax benefits.

[1] *The SG rate will be 10% until end of financial year 2021/22. After that it will increase gradually each financial year by 0.5% until it reaches 12% on 1 July 2025.*

[2] *If your income for Division 293 purposes exceeds $250,000 during the 2021-22 financial year, an additional tax of 15% may apply to all or part of your concessional contributions that do not exceed the cap.*

[3] *Total income equals assessable income plus reportable fringe benefits plus reportable employer super contributions, less business deduction (other than for work related employee deductions or personal super contributions). Thresholds are for the 2021-22 financial year.*

[4] *The original contribution made does count towards the members' concessional contributions cap.*

[5] *You qualify for the work test exemption for a financial year if you met the work test in the previous year (but not the current year), your total super annuation balance was less than $300,000 just before the start of the financial year and have not used the work test exemption in any previous year.*

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