Tax Planning for 30 June

Tax planning is always important ahead of the 30 June end of financial year. This year, businesses and accountants alike face additional considerations after Covid-19 upended usual business operations and spurred a string of stimulus measures from state and federal governments.

This is an outline to help guide you in the right direction. For information and requirements to suit your personal situation, please contact your Crosby Dalwood Accountant.

To stem the Covid-19 impact on the economy, your business may have received one of more the government's rebates or incentives, so it's important to mention this from the get go:

- The Federal Cash Flow Boost is tax free.
- State grants are usually taxable, In particular, the South Australia Covid-19 Assistance Grant for small businesses is taxable.
- JobKeeper payments are taxable, however they are offset by wages payments made to employees. On this basis, there is no net taxable income to the extent you have paid JobKeeper top-up payments to employees.

Understanding Your Tax Position

If your taxable income for the year ended 30 June 2020 is likely to be lower than the previous year, you may consider varying your June 2020 PAYG instalment (due 28 July) to assist with cash flow.

You may also be able to claim a refund of PAYG instalments made in earlier quarters, if you suspect you have paid too much.

Prior to 30 June, review your debtors and write off any bad debts. Bad debts need to be documented prior to 30 June to be an allowable deduction for the year ended 30 June, 2020.

Trustees of discretionary trusts are required to document their annual resolution setting out how the income of the trust will be distributed. Failure to make the resolution prior to 30 June may result in the trustee being assessed on the income of the trust at the highest marginal tax rate.

Instant Asset Write Off

A business with less than $500M turnover will be able to claim an immediate tax deduction for asset purchases less than $150,000 (excluding GST) purchased between 12 March 2020 and 30 June 2020.

The asset write off limit was increased from $30,000 to $150,000 for assets purchased after 12 March 2020 as part of the government's Covid-19 stimulus measures. The asset must be purchased and installed by 30 June for asset write off to apply in the 2020 financial year, but the limit is running until 31 December 2020.

For assets purchased for more than $150,000 there is a 50% deduction available in the year of installation, with the remainder falling under normal depreciation rules.

Excluded from these rules are items such as capital works.

Income in Advance and Pre-paid Expenses

For certain businesses, there may be income that has been received in the financial year where the work is yet to be completed. An example of this is where income is received based on timing stipulated in a contract, and not based on project completion or work performed. In such cases there may be an opportunity to defer the income until the next financial year in which the work was carried out.

There are also opportunities under the small business rules to pre-pay expenses, such as interest on loans or insurance, before 30 June in order to claim a tax deduction in the financial year. These prepayment rules apply only to amounts that are deductible under general deduction provisions and the expense does not relate to a service period of more than 12 months.

Superannuation

For businesses - Pay your June quarter superannuation contributions before 30 June in order to obtain a tax deduction in the 2020 income year.

Please note that, subject to cash flow permitting the actual due date is 28 July 2020 but it is recommended that payment be made before 30 June to ensure the payments are received by 30 June.

Consider making additional superannuation contributions, subject to your personal superannuation concessional contribution cap for the 2020 income year (we recommend you consult with a Financial Planner in order to determine what is most appropriate for you)

Farm Management Deposits

Investing in Farm Management Deposits (FMDs) can help primary producers to reduce fluctuations in taxable earnings caused by economic and seasonal changes to primary production income.

Interest is paid on such FMDs, and they must be held for at least 12 months; otherwise, the tax benefit of investing in an FMD will not be retained.

Farm Management Deposits are tax deductible in the financial year they are made, and are taxable income when that FMD is withdrawn. FMDs are limited to $800,000 per person and must be held for at least 12 months

FMDs are a tax-effective opportunity, however taxpayers must consider whether FMDs would be useful to reduce this year's taxable income or whether they have any FMDs to withdraw if income is lower than average.

Home Office Deductions

With so many businesses allowing employees to work remotely, from their homes, during Covid-19, the ATO has introduced a 'shortcut method' to calculating home office expenses from 1 March 2020, which allows you to claim an 80 cent per hour tax deduction for each hour worked from home.

You can use this method when you are working from home doing your full employment duties, not just minimal tasks, and have incurred additional running expenses as a result. This method covers all of your work from home expenses including phone, electricity, gas, and internet.

You are able to use the previous methods for calculating home office deductions such as the 'Fixed Rate Method' and 'Actual Cost Method'. To claim a deduction for working from home, all of the following must apply:

- You must already have spent the money
- The expense must be directly related to earning your income
- You must have a record to prove it.

Read more here about claiming home office expenses

Remember Donations

With so much going on in the world over the past 12 months, you may have made donations to causes such as bushfire relief and Covid-19 appeals. Donations of $2 or more to Deductible Gift Recipients may be tax deductible.

Make sure you find your receipts and provide them to your accountant.

Keep Good Records

The ATO is stressing the importance of good record keeping to ensure taxpayers are claiming the correct tax deductible amounts and that those tax deductions can be supported when required.

Having thorough, organised records also allows your accountant to claim all available tax deductions, thus minimising tax where possible.

If you have any questions around preparing your finances for the end of the financial year, please ring Crosby Dalwood on 8362 0466