Corporate Solutions - Individually Tailored

2020 year-end tax Newsletter

As we approach the end of the current financial year, we would like to bring your attention to the following tax planning matters which need to be in place by 30 June 2020.

1. **Superannuation Concessional Contributions (deductible)**

   Concessional contributions which include employer contributions, contributions made under a salary sacrifice arrangement and personal contributions claimed as a tax deduction is subject to an annual cap of $25,000.

   For the purpose of getting a tax deduction, ensure that the decided amount of superannuation is paid by the company on or before Tuesday 23 June 2020 to allow sufficient time for the superannuation funds (particularly industry funds) to receipt the monies by Tuesday 30 June 2020. If the monies are not received by the applicable superannuation funds by 30 June 2020, a tax deduction is denied until the following year.

   Please note that tax deductions are only available only for actual superannuation payments made, rather than payments that are due. To be eligible to claim a deduction, payments must be made on time (i.e. 28 days after the end of the relevant quarter). If a payment is made after the due date, the tax deduction is denied.

2. **Superannuation Non-Concessional Contributions (Non-deductible)**

   Non-concessional contributions are made from after tax income and not taxed by a superannuation fund. Non-concessional contributions include personal contributions for which you do not claim an income tax deduction (e.g. undeducted contributions).

   From 1 July 2017, the non-concessional contributions cap is $100,000 for members 65 or over but under 75. Members under 65 years of age have an option of contributing up to $300,000 over a three-year period, depending on their total superannuation balance.

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Contribution and bring forward amounts available to members under 65 years old is outlined in the table below:

Total superannuation balance	Contribution and bring forward cap available
Less than $1.4m	Access to $300,000 cap (over 3 years)
Greater than or equal to $1.4m and less than $1.5m	Access to $200,000 cap (over 2 years)
Greater than or equal to $1.5m and less than $1.6m	Access to $100,000 cap (no bring forward period applies)
Greater than or equal to $1.6m	Nil

3. Government Co-Contribution

Eligibility criteria:

- Made one or more eligible personal super contributions to your super account during the financial year (the contribution has to be received by the fund by 30 June 2020)
- Pass two income tests (income threshold and 10% eligible income test)
- You are less than 71 years old at the end of the financial year
- You lodge an income tax return for the 2020 year
- Temporary resident visa holders are not eligible for the co-contribution
- Total superannuation balance less than the transfer balance cap at the end of the previous financial year ($1.6 million for the 18/19 financial year)
- Have not contributed more than your non-concessional contributions cap

Income Threshold Test:

- Taxpayers with a taxable income of less than $38,564 would receive a $500 government co-contribution for a $1,000 contribution.
- The co-contribution will reduce progressively if your income is between the lower threshold ($38,564) and the higher threshold ($53,564).

10% Eligible Income Test:

- 10% or more of your total income must come from employment related activities, carrying on a business or combination of both.

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4. Small Business Entity Concessions

A) Company tax rate reduction

A company must be a base rate entity to be eligible for the lower 27.5% company tax rate. A company is a base rate entity if both of the following apply:

a) The company has a turnover less than the turnover threshold of $50 million for the 2019-20 year
b) 80% or less of their assessable income is base rate entity passive income (such as interest, dividends, rent, royalties and net capital gain).

If your business is a company, your aggregated turnover includes your annual turnover, plus the annual turnover of all the entities that are connected or affiliated with your company, which may be based in Australia or overseas.

The base rate is reducing to 26% for the 2020/2021 year.

B) Instant asset write-off

The instant asset write-off is available for businesses with an aggregated turnover of less than $10m (for 1 July 2019 to 11 March 2020), then extended to businesses with aggregated turnover of less than $500m (from 12 March 2020 to 30 June 2020).

On 12 March 2020, the threshold increased from $30,000 to $150,000. Small businesses can immediately deduct the "business" portion of most assets that cost less than the applicable threshold rates as long as the asset was ready for use or installed ready for use by those dates.

Businesses with a turnover of up to $50m can claim a deduction for each asset purchased and first used or installed ready for use, up to the following thresholds:

- $30,000, from 2 April 2019 to 11 March 2020
- $150,000 from 12 March 2020 to 30 June 2020 *

**The Government recently announced that the instant asset write-off of $150,000 will be extended to 31 December 2020 (note that this change is subject to parliamentary process and is not yet law).*

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5. **Prepayments**

Business prepayments, is expenditure incurred for things to be done (in whole or part) in a later income year. Prepaid expenses are deductible over the eligible service period rather than being immediately deductible.

Prepaid expenses may be immediately deductible if:

- It is excluded expenditure
- If the payment is incurred for an eligible service period not exceeding 12 months and the eligible service period ends in the next income year.
- It relates to a pre-review of business taxation (RBT) obligation

Excluded expenditure includes:

- Amounts less than $1,000
- Amounts required to be incurred by a court order or law of the Commonwealth, State or Territory
- Payments of salary or wages
- Amounts that are capital, private or domestic in nature

If applicable, please provide us with a list of all prepayments in excess of $1,000 and include information such as date and nature of payment, period of service and amount paid.

6. **Bad Debts**

All non-recoverable trade debtors should be written off by 30 June 2020. This means entries should be made in the debtor's ledger, a directors' resolution drawn up or evidence of written approval of the managing director. Depending on whether the company is registered for GST on a cash or accruals basis, there may or may not be an adjustment required to the company's Business Activity Statement (BAS), which can be made in the June 2020 quarter BAS or at a later point by amending a prior BAS.

7. **Depreciation**

Keep a record of asset acquisitions and disposals during the year showing the cost price or disposal value and relevant dates. Acquisition date refers to the date an item of plant or equipment was first installed ready for use, and not necessarily when paid for. Ensure that plant and equipment is reviewed to determine if any should be scrapped (and advise us of the details).

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Under the uniform capital allowance system (UCA), an immediate deduction is allowance for assets costing $300 or less. However, for small businesses, please refer to section 4(B) for the instant asset write off thresholds as they have changed over the last few years.

8. Computer Software

For software purchased during the year, please identify if anticipated usage will be less than 2½ years and if so the estimated months of use.

9. Superannuation Guarantee Charge (SGC)

Review the payroll records, employee by employee, month by month, to ensure that the appropriate percentage of ordinary time earnings has been paid as superannuation contributions to a complying superannuation fund.

As 30 June 2020 falls on a Tuesday, we recommend that contributions are made the week prior. Businesses that are using the small business clearing house should be contributing by Tuesday 23 June 2020 in order to ensure that the contribution is received by the fund by 30 June 2020.

For the purposes of SGC, the deadline for contributions for the 2019/20 year is 28 July 2020. The rate for all employees is 9.5%.

10. Substantiation and Record-Keeping

Ensure that all logbooks, travel diaries and odometer records are completed where applicable in respect of the 2019/20 year. Please note that log books are required to be kept for at least 12 weeks in the first year and then every five years. New log books are required where circumstances have changed and the previous determined rate (on prior log book) is no longer representative of the business/private usage.

11. Entertainment

Please ensure your meal entertainment is dissected between:

1) non-deductible customer entertainment and
2) deductible but subject to FBT, such as employee entertainment and
3) deductible but free of FBT, such as employee sustenance while travelling on business or in an in-house dining facility.

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12. Capital Gains

If you have capital losses (current year or brought forward) or current year capital gains, consideration may be given to advancing future gains or losses to offset the position.

13. Loans to shareholders/associates

Any loans or advances to shareholders or their associates, that are not fully repaid to the company by the lodgement time of the company's income tax return for the relevant year will need to be documented, and will require repayments according to the repayment plan.

14. Stock on hand

Businesses that own stock should ensure that a stocktake is completed at 30 June 2020. Stock can be valued at cost, market value or replacement value, whichever is the lower.

15. COVID-19 Stimulus payments

Many businesses that met the eligibility criteria has received the Government stimulus payments in the 2020 year, being the Cashflow Boost and Jobkeeper payments.

Cashflow boost payments are not taxable to the entity receiving the payment.

Jobkeeper payments are taxable, however, this income is offset by corresponding payments to employees, hence no net tax payable.

16. Payments to Workers

From 1 July 2019, businesses can only claim a tax deduction for payments to workers (such as employees, directors, contractors etc) where the business has complied with PAYG withholding rules or withheld on contractors without ABN's. The new rules apply for income tax returns lodged for the 2020 year and onwards.

Businesses should check the currency and validity of ABN's provided by contractors – this can be done via the ABN Look up tool https://abr.business.gov.au/Tools/AbnLookup.

Payments not only have to be paid, but they have to be reported to the ATO, otherwise the businesses will not be allowed the tax deduction, even if the individual includes the income in their tax return.

Businesses that normally pay wages or allowances to family members below the tax-free threshold will need to register for PAYG withholding and provide a PAYG payment summary in order to obtain a tax deduction.

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If you wish to discuss any of the above matters, please do not hesitate to contact our office.

Should you have any questions, please feel free to contact our office.

Yours faithfully

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