Nexia Australia

Ensuring you are in the best possible tax health by 30 June 2021

The 2020/21 income year has been an unusual one, featuring a number of rare things.

These include:

- Two Federal Budgets (the last time that happened was 1996/97);
- A pandemic (over a century since the last one);
- A recession (almost 30 years since the previous one); and
- The start of the recovery.

Now, with 30 June approaching, we present a number of year-end tax planning strategies and compliance issues worth considering to ensure you are in the best possible tax health. A number of new tax issues arise this year from the measures enacted to support the economic recovery from the COVID-19 pandemic.

Taking into account the most recent tax changes, this planner will focus on the most important issues the corporate sector, small-to-medium businesses and individuals should consider to best manage their tax exposure in respect of the 2021 income tax year.

Where relevant, mention will also be made of proposed tax changes that may affect your tax position in 2021, or later years.

Please speak to your Nexia Advisor before implementing any tax planning strategies.

Introduction

Tax planning is about taking control over the amount of money in your pocket. This manifests in managing risks, and capitalising on opportunities, to appropriately manage your tax exposure.

This year features a combination of measures never before seen that will impact the tax impost on your business. They're supposed to reduce the tax impost, but if left unmanaged, they could ultimately *increase* it. Accordingly, you can either let the 2020/21 tax cards fall however they will, or exercise some control over the hand you're dealt.

Whilst tax planning is all-year-round, there's no doubt that coming up to 30 June heightens sensitivity to possible opportunities. This year continues to feature issues to contend with from various COVID-19 related matters.

If you would like to discuss anything in this document, talk to your trusted Nexia Advisor.

1. Year-end tax planning - Business

1.1 Lowering of company tax and franking rates

As illustrated in the table below, company tax rates are falling in Australia.

Income Tax Year	Turnover less than	Company tax rate
2020/21	$50m	26%
2021/22 onwards	$50m	25%

Tax Rate

Companies with group-wide business turnover below $50 million and no more than 80% of their income comprising passive income will be subject to company tax at a rate of 26% for 2020/21, falling to 25% from 1 July 2021. All other companies are subject to the 30% rate.

Franking Rate

Dividends can have tax credits attached by franking them at either the 30% rate (ie, dividend x 30/70) or 26% rate (dividend x 26/74). The rate at which a dividend is franked and the company's income tax rate for the year are determined independently of each other. Accordingly, a company might pay tax at one rate for a year, yet frank a dividend paid in that same year at the other rate. This can cause over-taxation, or leave you with unusable franking credits.

We can assist with managing your franking outcomes.

1.2 JobKeeper – timing of assessability

JobKeeper payments made to your business are usually assessable at the time of lodging the monthly declaration. For example, the monthly declaration for May 2020 was lodged on 28 June 2020, and the JobKeeper funds were paid to your business on 7 July 2020. Although the money was received inside the 2020/21 income year, it was assessable income of the 2019/20 income year.

To avoid overpaying income tax, ensure JobKeeper funds received are attributed as assessable income to the correct year.

1.3 Cash flow boost not assessable... yet

Cash flow boost amounts received or credited are not assessable income to your business. However, they will likely be extracted from your business ultimately in a taxable form (eg, dividend). Although the boost amount is calculated based on certain PAYG withholding obligations, it has no impact on the deductibility of wages paid.

1.4 Temporary full expensing of eligible depreciating assets

Businesses with a group-wide turnover below $5 billion can deduct the full cost of eligible depreciating assets acquired from 7.30pm AEDT on 6 October 2020 until 30 June 2022 (announced to be extended to 30 June 2023). Full expensing is also available for the cost of improvements to existing eligible assets.

Where a business's group-wide turnover is less than $50 million, temporary full expensing applies to acquisitions of both new and second-hand assets. Where group-wide turnover is $50 million or more, it applies only to acquisitions of new depreciating assets. (But note, it applies to improvements to existing assets per above).

You can choose to opt out of full expensing on an asset-by-asset basis. The depreciation deductions for such assets will then be calculated under the normal effective-life rules. However, if it is subject to the instant asset write-off (refer to item 1.6), it must be fully deducted.

1.5 Loss carry-back – cash refund

Eligible companies can claim a cash-refund offset in their 2020/21 tax return for tax losses (revenue only, not capital losses) incurred in the 2019/20 and 2020/21 income years. The company must have group-wide turnover below $5 billion, and paid tax in any of the 2018/19 or later years. The losses can be "carried back" against those prior taxable years, but is claimed as a refundable offset on the 2021 tax return.

The amount of the offset generated by carrying back losses is limited to the amount of tax paid in the applicable prior years and the company's franking account balance at 30 June 2021.

This is intended to operate in conjunction with Full Expensing of Depreciating Assets, which itself might be the cause for a company incurring a tax loss in at least the 2020/21 year.

1.6 Instant asset write-off

For eligible depreciating assets which cost less than $150,000 (ex-GST), the instant asset write-off rule provides a full deduction. For businesses with group-wide turnover below $50 million, in practice, this is relevant only for acquisitions up to 6 October 2020. The reason is that, although the write-off rules still apply after that date, they are effectively overridden by the temporary full expensing deduction set out above.

Second-hand assets

For businesses with group-wide turnover between $50 million and $500 million, temporary full expensing above does not apply to second-hand assets, but the instant asset write-off is available where such assets cost less than $150,000 (ex-GST). For second-hand assets costing $150,000 or more, a 50% up-front deduction is also available, and the rest is depreciated normally. However, the following two conditions must be satisfied in order to obtain these deductions in the 2020/21 income year for eligible second-hand depreciating assets:

- Must be acquired by 31 December 2020; and
- Must be first used, or installed ready for use, by 30 June 2021.

1.7 Small business simplified depreciation

Businesses with group-wide turnover below $10 million can choose to apply a simplified depreciation system – and virtually all do. The costs of depreciating assets are pooled together and a simplified depreciation deduction is calculated for the year.

The above rules for temporary full expensing are replicated in these simplified pooled depreciation rules. However, for those businesses who have chosen to apply this simplified pooling depreciation system, there is one key difference: You cannot opt out full expensing. Further, you will get a deduction for the closing written-down balance of the depreciating asset pool. Again, you cannot opt out of this deduction.

As noted, virtually all businesses with group-wide turnover below $10 million choose to apply this simplified pooling depreciation. These deductions forced upon such businesses could actually produce a sub-optimal tax outcome.

This makes tax planning ahead of 30 June 2021 all the more important.

1.8 Concessions available for small business entities

Businesses that are small business entities (group-wide turnover below $10 million) may qualify for the following tax concessions in the 2021, income tax year:

1. Immediate deduction for depreciating assets *(refer to items 1.4 and 1.6);*
2. Simplified depreciation rules for all other; depreciating assets *(refer to item 1.7);*
3. Small business restructure rollover;
4. Immediate deduction for start-up costs;
5. Immediate deduction for certain prepaid expenses;
6. Simplified trading stock rules;
7. Simplified PAYG tax instalment rules;
8. Cash basis accounting for GST, ATO-calculated GST instalments; and
9. FBT exemption for car parking, providing multiple portable electronic devices (eg laptops, mobile phones).

1.9 Superannuation Guarantee increase

From 1 July 2021, the Superannuation Guarantee rate for compulsory superannuation contributions by employers will increase from the current 9.5% to 10%. The rate is applied to an employee's Ordinary Times Earnings.

Superannuation Guarantee was always intended to be an income sacrifice by employees. Depending on applicable awards or employment contractual arrangements, the salary component of an employee's remuneration might need to change from 1 July due to the increase in the rate.

1.10 General Business Issues

Manage your private company loans

Integrity rules exist to combat accessing company funds in a tax-preferred manner that have been taxed at the company rate, instead of by extracting as a dividend. The rules exist due to the wide gap between the company tax rate of 30%/26% and the top personal tax rate of 47%.

Care must be taken when a private company makes a loan or payment to a shareholder (or the shareholder's associate), or forgives a debt owed by a shareholder (or associate). Also, where a trust appoints trust income to a private company beneficiary without the cash payment to the company; such unpaid present entitlements (UPEs) made from 16 December 2009 by a trust to a company may be treated as either a loan by the company to the trust or remain a UPE (if put on sub-trust).

This is a very complicated area of tax law, but is relevant for many businesses, so please speak to your Nexia advisor regarding any form of advance or credit from trusts or companies to associated parties.

Review your trust deeds and make trust resolutions by 30 June

Trustees must generally make valid resolutions before 30 June (or an earlier date if specified in the trust deed) to appoint trust income to beneficiaries. If trustees fail to make valid appointment resolutions before 30 June, the trustee can potentially be assessed on all the Trust's taxable income at the top marginal tax rate (i.e. 47%).

Also note that beneficiaries must quote their TFNs to trustees before a trustee appoints trust income to them for the first time – failure to do so will result in the trustee being liable to withhold tax at 47% from the trust income appointed to the beneficiary

To ensure that valid trustee income appointment resolutions are made, the terms of the Trust Deed must be complied with.

Review your bad debts and obsolete plant and machinery

Before 30 June, outstanding debtors should be reviewed to determine the likelihood of not receiving payment and whether attempts to recover the debts will be successful (keep documentation to evidence that the debt is considered to be non-recoverable). If the debt is irrecoverable and if income is reported on an accruals basis, the debt can be regarded as a bad debt for which a tax deduction may be claimed. This process must occur before 30 June.

This same methodology applies to scrapping obsolete plant and machinery. In such a case you should review your asset register, identify, scrap (i.e. physically dispose of) and claim a deduction for the written down value of such assets. *(But see item 1.7 for small business entities)*

Value trading stock at the lower of cost, market selling value or replacement value

The valuation of trading stock at year-end may impact on the amount to be included in assessable income for the 2021 income tax year.

Because a lower closing value for trading stock may result in a lower taxable income, taxpayers have the choice of valuing trading stock on hand at 30 June as the lower of cost, market selling value or replacement value.

Or, value stock at the higher of the above three options

If your business has suffered a reduced level of profit this year, or even a loss, consider this alternative. You can choose amongst the three valuation options for year-end stock on hand on an item-by-item basis. You can possibly achieve a better tax outcome by increasing 2021's taxable income to a more optimal level, or eliminate a tax loss, thereby avoiding the need to address complex integrity rules for carrying forward tax losses. The law expressly allows you to make these choices, and whilst they produce only a timing difference for your business's taxable income, the right combination of choices can achieve a permanent tax saving.

1.11 Single Touch Payroll

All employers are now required to run their payroll and pay their employees through accounting and payroll software that is Single Touch Payroll (STP) ready. A small concession was afforded to employers with 19 or fewer employees – "closely held" employees (eg, directors, family members, beneficiaries) were exempted from being reported through STP-enabled software until 30 June 2021. From 1 July 2021, all employees must be reported through STP.

If you are still having STP issues, please talk to us so that we can assist you with STP compliance.

1.12 Certain industries must report payments to contractors

Businesses in the building and construction, cleaning, courier, road freight, IT, and security, investigation or surveillance industries must lodge a taxable payments annual report (TPAR) by 28 August 2021. The report includes the total payments they make to contractors.

2. Year-end tax planning - Individuals

2.1 Deduct work-related expenses

Taxpayers who are over-claiming work-related expenses (e.g. vehicle, travel, internet and mobile phone and self-education) are on the ATO's hit list.

Although a myriad of tax law considerations is involved when claiming work-related expenses, the three main rules are:

1. Only claim a deduction for money actually spent (and not reimbursed);
2. The work related expense must directly relate to the earning of income; and
3. You must have a record to prove the expense.

Working from home – running expenses

In response to COVID-19, many people have been working from home for an extended period. For the 2020/21 year, a temporary, simplified method is allowed for calculating your allowable deduction arising from working from home.

You can claim a deduction of 80 cents for each hour you work from home due to COVID-19, as a representation of all additional deductible running expenses as a result of working from home. However, you must be working from home to fulfil your employment duties and not just carrying out minimal tasks such as occasionally checking emails or taking calls.

You do not have to have a separate or dedicated area of your home set aside for working, such as a private study.

There are two other alternative methods for calculating your deductible running expenses:

- 52 cents per hour to cover certain running costs, plus calculated work-related portion for others.
- Actual work-related portion, calculated for all running costs.

2.2 Manage your general exposure to capital gains tax

If suitable, delay the exchange of contracts to sell an appreciating capital asset until after 30 June 2021. That way, the capital gain will only be assessable in the 2022 income tax year.

If you have already made a capital gain this year, you may wish to crystallise capital losses (e.g. by selling shares that have declined in value) to reduce the capital gain. However, when adopting this strategy, ensure that you are not engaging in "wash sales" (where you sell shares shortly before 30 June solely to realise the capital loss, and then buy the shares back shortly after 30 June).

Also, a capital gain will be eligible for the 50% CGT general discount to the gross gain if the asset has been held for at least 12 months before sale.

2.3 Make donations

Donations of $2 or more to a deductible gift recipient are tax deductible. Donations of property to such recipients may also be tax deductible. Donations to overseas charities may not be tax deductible.

2.4 Superannuation

Pay superannuation contributions before 30 June

Both employees and self-employed individuals can claim a tax deduction annually to a maximum of $25,000 for personal superannuation contributions, provided the superannuation fund has physically received the contribution by 30 June 2021 and the individual has provided their superannuation fund with a notice of intention to claim.

Payments to a superannuation fund should be made sufficiently in advance of 30 June to ensure there is time for the payment to be processed and credited to the fund's bank account by 30 June. If it is not credited to the fund's bank account by 30 June, the deduction will be deferred to the next income year.

Superannuation rates and caps

Here is a short summary of the most important superannuation rates and caps that apply for the 2020/21 and 2021/22 income tax years:

Important superannuation numbers		
	2020/21	**2021/22**
Lifetime CGT cap for non-concessional contributions	$1.565 million	$1.615 million
Concessional (ie, deductible)contributions cap	$25,000	$27,500
Non-concessional contributions cap	$100,000 (or $300,000 under the 3-year bring forward rule for people under 65)	$110,000 (or $330,000 under the 3-year bring forward rule for people under 65)
Superannuation guarantee	9.5%	10%
General transfer balance cap	$1.6 million	$1.7 million
Total superannuation balance threshold	$1.6 million	$1.7 million

Remember that employed people can make concessional (ie, deductible) contributions directly to their superannuation fund. They do not need to enter into a salary sacrifice arrangement with their employer.

Catch-up contributions to superannuation

If your superannuation balance is below $500,000 as at the previous 30 June, you can contribute more to superannuation than the annual $25,0000 deductible contribution cap where your contributions in prior years were below $25,000. Employer contributions are counted for this purpose, and there are contribution and timing limits.

2.5 First Home Super Saver Scheme

A first home buyer can salary sacrifice a maximum of $15,000 a year (take care not to breach the $25,000 concessional contributions cap) to save for a deposit to buy a first home. The maximum amount that can be saved in such a way is $30,000 across all years. Provided the buyer's partner does not already own his or her first home, the couple can put in a maximum of $60,000 ($30,000 x 2) to buy a first home.

Money saved in this way can only be withdrawn from the superannuation fund with strict rules applying on how to use such withdrawn money (e.g. must buy a home within a certain time and the ATO must be notified of the withdrawal).

Withdrawn funds are subject to income tax at your marginal rate, less a 30% rebate.

Recovery and beyond

Tax is complicated and is constantly changing. Quite possibly strategies used in the past have become outdated and may not work for you anymore. The COVID-19 pandemic has also caused immense disruption to businesses, and business models. However, despite the difficult circumstances, we believe there is a pathway to recovery, and beyond to prosperity.

We hope that this Tax Planner helps you to identify some extra ideas for tax time to assist you in operating your business more tax efficiently and effectively.

Please speak to your trusted Nexia Advisor if you would like to discuss any of the strategies mentioned or would like us to perform a financial and tax health check on your business.

Nexia Australia

Contact us

For further information or to discuss how Nexia Australia can assist your organisation, please contact a local Nexia Advisor below.

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