



Chan & Naylor
Our People. Your Advantage.

Tax Planning Guide

2020-2021

WELCOME

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It is recommended to seek advice from a qualified professional relevant to your particular needs or interests. (For instance, Tax Advice from a Tax Agent, Financial Advice from a Licensed Financial Adviser and so on and so forth).

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What to consider when tax planning for EOFY?

With the end of the financial year looming, it's time to think about your tax planning options before 30 June hits. We've curated a list of top things to focus on when organising your tax affairs for year-end.



Business Tax Planning

The most commonly overlooked deductions

When running a business, the payment of suppliers by the due date is a priority. While paying bills on time is always a primary concern, most businesses are unaware of the tax savings that can result from bringing forward the payment of certain expenses. Let's look at the most overlooked deductions that can accelerate your cashflow by postponing your tax liability.

1. Pay Superannuation on time & before June 30

Most businesses have payroll software that enables posting payroll expenses into the general ledger by the click of a button. Employees are paid their net wage, but the superannuation contributions may be left in an unpaid superannuation account until the end of the month or quarter.

While most expenses are eligible for deduction when incurred, superannuation is only deductible when it is paid and received, on time, by a complying superannuation fund.

Superannuation contributions need to be received by the fund by the 28th day of each quarter (with significant penalties for late payment). The June quarter superannuation liability is only due by 28 July and is often not paid before year end. However, by paying the June quarter liability before 30 June the amount is deductible in the year it is paid should the fund receive the amount by 30 June.

2. Instant Asset Write Off Thresholds

Instant asset write-off for eligible businesses (IAWO)

Under instant asset write-off eligible

businesses can:

- immediately write off the cost of each asset that costs less than the threshold
- claim a tax deduction for the business portion of the purchase cost in the year the asset is first used or installed ready for use.
- Instant asset write-off can be used for both new and second-hand assets. Some exclusions and limits apply.

The instant asset write-off eligibility criteria and threshold have changed over time. You need to check your business's eligibility and apply the correct threshold amount.

COVID-19 Changes from 12 March 2020

For the period 12 March 2020 to 30 June 2020, the following IAWO rules apply:

- threshold amount for each asset is \$150,000 (up from \$30,000)
- eligibility has been expanded to cover businesses with an aggregated turnover of less than \$500 million (up from \$50 million).

Eligibility to use instant asset write-off depends on:

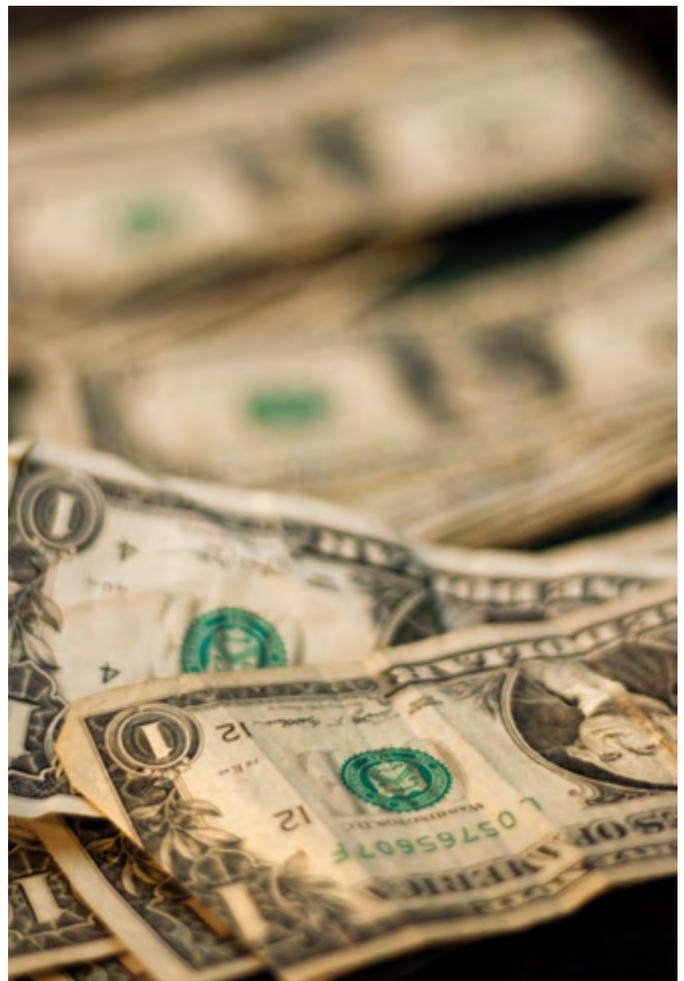
1. your aggregated turnover (the total ordinary income of your business and that of any associated businesses)



2. the date you purchased the asset
3. when the asset was first used or installed ready for use
4. the cost of each asset being less than the threshold.

The criteria have changed over time so make sure you check whether your business is eligible.

From 1 July 2020 the instant asset write-off will only be available for small businesses with an aggregated turnover of less than \$10 million and the threshold will be \$1,000. Businesses with an aggregated turnover of \$500 million or more are not eligible to use instant asset write-off.



Instant asset write-off thresholds

Eligible Businesses	Date range for when asset first used or installed ready for use	Threshold
Less than \$500 million aggregated turnover	12 March 2020 to 30 June 2020 (see note)	\$150,000
Less than \$50 million aggregated turnover	7:30pm (AEDT) on 2 April 2019 to 11 March 2020	\$30,000
Less than \$10 million aggregated turnover	29 January 2019 to 7:30pm (AEDT) on 2 April 2019	\$25,000



3. Write off bad debts before June 30

If you have a non-paying customer and there is a genuine concern regarding recovery of the debt, then some or all of the debt can be deducted in the current tax year provided it is written off before year end and was included as income at an earlier time. It is important to substantiate the reasons behind writing-off the debt prior to year-end. This deduction only applies to businesses that utilise accrual basis for tax calculation purposes

Keep in mind that you may be entitled to a reduction in GST for the bad debt written-off. If you are registered for GST and have included the forgiven amount in a prior period Business Activity Statement, you are entitled to adjust down the GST payable in the period that you write-off the bad debt.

4. Dispose obsolete plant and equipment

Businesses should review their fixed asset registers to ensure that they are not holding plant or equipment that they no longer require due to obsolescence. Even checking for assets that your business no longer holds could save you at tax time.

Depending on the written down value of the assets, a deduction can be claimed should the asset be 'scrapped' or disposed of prior to year-end.

5. Revalue Stock

It may be time to review how your business values stock on hand. Perhaps the value of closing stock used for tax purposes is based on your management accounts that uses the higher of net realisable value or cost. The ATO allows a business to value its closing stock at any of the following values:

- . Replacement value
- . Cost
- . Market selling value

Depending on the stock valuation under these three methods a business can obtain a significant reduction in its tax liability by adopting a method that results in the lowest value.

In certain circumstances, a taxpayer may also be entitled to a deduction for a write-down of obsolete stock where appropriate valuations and measures are taken.

6. Commit to staff bonuses before year-end

It is common practice for a business to create a provision for payment of staff bonuses. However, a tax deduction is only available for staff bonuses to the extent that the business is 'definitively committed' to paying the bonus. Therefore, a business



looking to claim a deduction for current year bonuses should keep appropriate documentation to support approval of those bonuses prior to year-end.

7. Pre Pay annual charges

Review any of your expenditure that is eligible for a discount if paid for the next year. Not only can you take advantage of this saving but depending on the expenditure it can also result in an immediate tax deduction.

Small businesses are eligible to deduct any prepayment that has a service period of less than 12 months and all businesses can deduct prepayments that are either required under a Government law or cost less than \$1,000.

8. Accrual Basis - Tax Calculation

Just because you haven't paid for goods or services until the following tax year, doesn't mean you can't take advantage of the deduction this year. To the extent that services are provided to you before year end even though they are invoiced after year end, and the cost can be reasonably estimated, the expenditure is deductible in the year in which the service was provided.

9. Claim upfront costs - Consumables

If your business holds consumable stocks or spare parts that are to be used within three months after year end, the ATO's view is that businesses can deduct the costs of consumables in the year acquired, as opposed to having to include the amount in closing stock. It can be beneficial for businesses to review their consumables and claim upfront where possible.





Division 7A Loans

Company loan to shareholders

If you are a shareholder or a shareholder's associate and you borrowed money from a company for personal use during the 2020 financial year, these loans need to be repaid or placed on a complying loan agreement by the lodgment due date of the company 2020 tax return. If not, there is a risk that the loan will potentially be treated as a deemed unfranked dividend and taxed in the shareholder/shareholder's associate hands.

In respect to existing Division 7A loans, please ensure the minimum annual loan repayment is received by the company prior to 30 June 2020.



Trusts

Trust distribution

Ensure you speak to your tax advisor to ensure your trust distribution resolutions are in place by 30 June 2020.

Be aware that if you are planning to distribute to any new beneficiaries (e.g adult children, corporate beneficiaries) for the 2020 year or beyond you need to ensure a Tax File Number (TFN) report has been lodged notifying the ATO of the beneficiaries' TFN before the end of the financial year if not already done. This is to notify the ATO of any new beneficiaries as they have an obligation to provide their TFN to avoid having TFN withholding applied to payments at a hefty rate of 47%.



Division 7A Loans – Trust distributing to a company

When deciding to distribute income from a Trust to a Company during the 2020 financial year to benefit from a lower company tax rate, ensure you have considered Division 7A consequences.

Where a Trust distributes income to a Company, the Unpaid Present Entitlement (UPE) may result in a deemed dividend if the UPE is not repaid by the lodgment due date of the Trust's 2020 Income Tax Return or placed on a complying Division 7A loan agreement or Sub Trust Agreement.

Tax Checklists

Company/Trust Checklists + SMSF





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BUSINESS | CHECKLIST

COMPANY / TRUST INCOME TAX RETURN

To assist you with gathering the necessary documents and information required to complete your **Financial Statements and Income Tax Returns**, we now provide you with a tailored checklist for your convenience.

We recommend that this checklist is used as a guide to gather all appropriate documents. Please print and bring along to your appointment with us. Failure to do so may mean we cannot complete your tax return in the most efficient and timely manner.

Documents/Information	Information Required	Not Applicable
Bank and/or loan statement(s) for the period 1 July to 30 June.	<input type="checkbox"/>	<input type="checkbox"/>
If you purchased or disposed of any real estate or shares during the financial year, we will require a copy of the contract, legal fees and settlement statement of all purchases or sales.	<input type="checkbox"/>	<input type="checkbox"/>
Dividend Slips for all shares held during the financial year.	<input type="checkbox"/>	<input type="checkbox"/>
Distribution statements & Annual taxation statements for all shares/managed funds held.	<input type="checkbox"/>	<input type="checkbox"/>
Details of any interest received.	<input type="checkbox"/>	<input type="checkbox"/>
Details of any rental income and/or expenses (including agents report).	<input type="checkbox"/>	<input type="checkbox"/>
Any personal insurance policies (life, trauma, income protection, TPD).	<input type="checkbox"/>	<input type="checkbox"/>
Details of any unusual payments or receipts throughout the financial year	<input type="checkbox"/>	<input type="checkbox"/>
Any other information that you think is relevant or have provided in the past.	<input type="checkbox"/>	<input type="checkbox"/>

Thank you for compiling all your information.

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**SELF MANAGED SUPERANNUATION FUND
| CHECKLIST**

INCOME TAX RETURN

To assist you with gathering the necessary documents and information required to complete your **Financial Statements and Income Tax Returns**, we now provide you with a tailored checklist for your convenience.

We recommend that this checklist is used as a guide to gather all appropriate documents and is provided to us with all your source documents. We advise that ATO audit guidelines have been thoroughly adjusted over the past couple of years and having the appropriate source documentation on your file is now mandatory.

Failure to provide all documentation will mean that we will not commence your financial statements or income tax return until received.

Documents/Information	Information Required	Not Applicable
<p>Cash/Bank/Term Deposits Accounts</p> <p>Bank Account statements for the period 1 July 2019 to 30 June 2020</p> <p>Bank: _____</p> <p>Acc No: _____</p> <p>Bank: _____</p> <p>Acc No: _____</p> <p>Bank: _____</p> <p>Acc No: _____</p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>	<p><input type="checkbox"/></p> <p><input type="checkbox"/></p> <p><input type="checkbox"/></p>
<p>Term deposit statements for the period 1 July 2019 to 30 June 2020</p> <p>Bank: _____</p>	<p><input type="checkbox"/></p>	<p><input type="checkbox"/></p>

Acc No: _____		
Bank: _____	<input type="checkbox"/>	<input type="checkbox"/>
Acc No: _____		
* We advise that internet banking transcripts will no longer suffice for audit verification		
Details of any interest received for the period 1 July 2019 to 30 June 2020	<input type="checkbox"/>	<input type="checkbox"/>
Documents/Information	Information Required	Not Applicable
Rental Properties		
Yearly rental summary from the agent for each property.		
Property Address: _____	<input type="checkbox"/>	<input type="checkbox"/>
Property Address: _____	<input type="checkbox"/>	<input type="checkbox"/>
Property Address: _____	<input type="checkbox"/>	<input type="checkbox"/>
If no agent, please provide a written explanation of rental received.	<input type="checkbox"/>	<input type="checkbox"/>
A copy of the lease agreement(s)	<input type="checkbox"/>	<input type="checkbox"/>
Council rates notice(s) & land tax notice(s)	<input type="checkbox"/>	<input type="checkbox"/>
Water rate notice(s) (usually 4 per annum)	<input type="checkbox"/>	<input type="checkbox"/>
Market valuation(s) of the properties (if not already previously provided)	<input type="checkbox"/>	<input type="checkbox"/>

Company: _____	<input type="checkbox"/>	<input type="checkbox"/>
ACN. No: _____	<input type="checkbox"/>	<input type="checkbox"/>
Documents/Information	Information Required	Not Applicable
Tax statements for all managed funds for the financial year ending 30th June 2020.	<input type="checkbox"/>	<input type="checkbox"/>
Copies of any share trading bank account statements for the period 30 June 2020 (for example Comsec).	<input type="checkbox"/>	<input type="checkbox"/>
If you purchased or disposed of any shares during the financial year, we will require a copy of the buy contracts and/or sales contracts also.	<input type="checkbox"/>	<input type="checkbox"/>
Copies of any Chess (or similar) holding certificates, etc.	<input type="checkbox"/>	<input type="checkbox"/>
Insurances		
Copies of any personal insurance policies (life, trauma, income protection, TPD).		
Policy No: _____	<input type="checkbox"/>	<input type="checkbox"/>
Policy No: _____	<input type="checkbox"/>	<input type="checkbox"/>
Other		
Copies of any rollover benefit statements of monies rolled over into the SMSF.	<input type="checkbox"/>	<input type="checkbox"/>
Details of any unusual payments or receipts throughout the financial year.	<input type="checkbox"/>	<input type="checkbox"/>
Any other information that you think is relevant or have provided in the past.	<input type="checkbox"/>	<input type="checkbox"/>

Thank you for compiling all your information.



*Disclaimer

Before acting on any information you may have received during a strategic financial consultation, or read about on our websites, email communications, guides including our newsletters, you should consider the appropriateness of the advice, having regard to your own objectives, financial situation and needs.

If any products are discussed, you should obtain a Product Disclosure Statement relating to the products and consider its contents before making any decisions.

It is recommended to seek advice from a qualified professional relevant to your particular needs or interests. (For instance, Tax Advice from a Tax Agent, Financial Advice from a Licensed Financial Adviser and so on and so forth).

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