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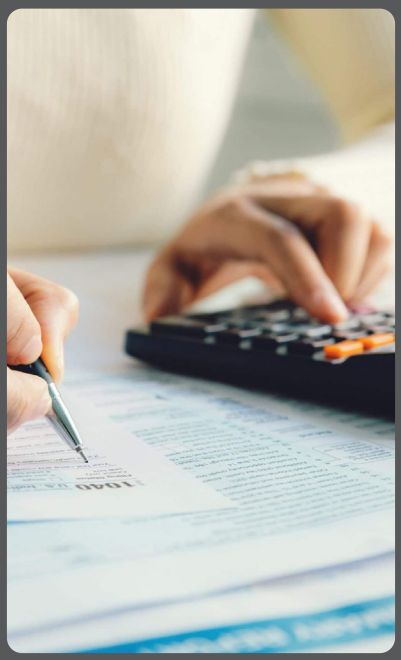


PREPARING FOR YEAR END

Effective planning and preparation is critical for all taxpayers as the end of financial year approaches.

The good news is that your tax professional is here to support you so you don't have to do all of the heavy lifting yourself.

This is the perfect time of the year to seek advice from your accountant to maximise your tax savings for 2020-2021 and start planning fresh for next year.

YEAR END STRATEGIES

THE 2020/2021 TAX GUIDE FOR YOU AND YOUR BUSINESS

SYNERGISTIC BUSINESS PARTNERS
STRONGER TOGETHER

End Of Year Tax Tips For Everyone

The 30th of June always seems to creep up on people with tax returns to do. In many instances, people who visit accountants to do their tax returns miss out on opportunities because certain things must be done before June 30th to receive specific tax advantages.

Here are some helpful tips for dealing with year-end tax planning.

Capital gains

If an asset has been sold during the year (such as an investment property or business asset), an accountant should be visited before June 30th to work out how much capital gain has been made and what can be done to reduce the tax impact on that gain. This could include bringing forward other expenses or making more significant contributions to superannuation. For the sale of business assets, there may be very generous concessions available.

Superannuation

Tax deductions are now available to most taxpayers but can only be obtained in the year that the contribution to superannuation is made. It may also be possible to contribute more than what an individual may have thought they were able to do so. Tax agents have access to the exact amount that individuals can claim a tax deduction for but need to be met with long before June 30th so that they can thoroughly explore their options at tax time.

Prepaying Expenses

There may be expenses due early next year, but tax deductions can be brought forward for the next year by pre-paying them in June.

Instant Asset Write Off

Most businesses can now claim a tax deduction for the total cost of items they buy for their business. Find out more information in our article devoted to Instant Asset Write Off on page 4.

SYNERGISTIC BUSINESS PARTNERS

CHARTERED ACCOUNTANTS
AUSTRALIA + NEW ZEALAND

CPA

Liability limited by a scheme approved under Professional Standards Legislation.

LEVEL 11,
205 Pacific Highway
St Leonards NSW
2065

TEL (02) 8004 1959

EMAIL
toby@sybp.com.au
WEBSITE
https://www.sybp.com.au

DIRECTORS
Toby Barber
Jan Barber

Business Strategy and Growth
Accounting and Business Services
Tax Compliance Services
Internal Accounting Procedures
External CFO
Start Ups

Tax Tips For Property Investors

The year end is fast approaching, and it's time to take stock of what can be done to get some tax deductions in this year's tax return.

✓ Travel

Don't forget that the government has recently removed the ability to claim a tax deduction for travel when inspecting rental properties. With too many people claiming tax deductions for trips that were more like holidays, the impact is felt now by those who were genuinely travelling for inspection. If tax is the motive, don't bother planning that trip for property inspections.

✓ Prepaid expenses

Bring forward any maintenance expenditure that needs to be completed by 30 June. Be sure to distinguish between what the ATO considers to be a 'repair' and what is an 'improvement', as improvements are non-deductible.

✓ Interest

Pre-pay interest on property investment loans if there is adequate cash flow in order to claim an immediate deduction. Investors may choose to pay interest in advance to simplify finances by making one prepayment of interest upfront or protect against possible interest rate rises over the 12 month period.

✓ Short-term holdings

Renovating a property with the intention of selling it for profit in the short term may incur tax as a "profit-making scheme". GST concessions will not be able to be taken advantage of as a result.

✓ Personal expenses

Ensure that any claims or interest on borrowings for investments can be clearly separated from interest on borrowings of a personal nature.

✓ Depreciation deductions

A qualified quantity surveyor can provide a depreciation schedule outlining the available tax deductions and providing a significant return. The cost of having a depreciation schedule prepared is also tax-deductible.

✓ Repairs at time of purchase

Expenses for property repairs are deductible provided that they relate to wear and tear or other damage as a result of earning rental income. The cost of initial repairs at the time of purchase are not deductible. It must be completed before 30th June to be in this year's return.

How Much Do I Get Out Of A Tax Deduction?

People often say that they "got it back on my tax". But what does that phrase mean?

"Tax Deductible" is a term used to describe something that money is spent on in the course of earning income. As an example, an individual who works as a hairdresser needs to buy a new pair of scissors for $700. The cost of purchasing those scissors is tax-deductible. It means that the income can be reduced by the amount of the tax deduction.

That doesn't mean that the tax office will deliver the $700 back to that individual, though. The amount received back is based on the amount of tax paid. So, if the individual was in the 40% tax bracket, they would get 40% back. If earning less than $20,000 for the year, then nothing extra will come back..

The moral of the story is only to spend money on items because they are needed. Never spend money just for the tax deduction - it's like spending two dollars to receive a dollar back.

End of Year Business Planning

It is essential to do some planning towards the end of each financial year. It is also necessary to look at what can be done towards the end of each tax year to minimise the tax you will pay. It is often too late to gain tax deductions when discussing tax returns with a professional.

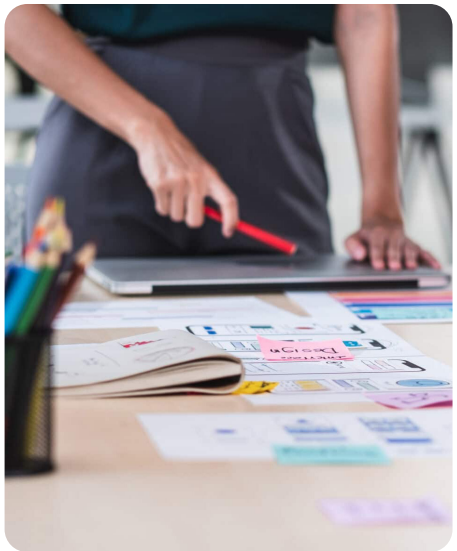
Imagine a situation where someone is catching a taxi. They tell the driver to take them anywhere, as long as it is somewhere. Where would they end up? It's always best to have an idea of where to go because then the destination will always be the result of whatever route is taken, no matter how roundabout that route might be.

A business tends to operate under the same principle. If there is no clear end goal, then it's difficult to say how things are going or where things stand. There is a much better chance of success and achieving outcomes if there is a clear plan or map of where the business will go from here.

Right now is the best time to sit down and plan out a strategy for the next twelve months. Paint a picture of where the business should be and arrange a planning session with the team. Bring in an outside consultant to help facilitate this process. These steps should assist in working out strategies to best suit the business and prepare it for the ensuing twelve months. The year's target should be clearly defined, making it more achievable by the business.

In involving the business's team, business goals can be aligned with the employee's goals. There's nothing better than an employee who shares the business's vision and can act upon it. Better yet, it also allows the employee to share additional insight into the business plan from a different perspective.

With a plan or strategy in place for the business, a financial budget will also need to be prepared for the new year. Breaking this budget down into monthly budgets will enable the business to understand how it is tracking towards the goals that have been set during the planning phase.



First Tax Return?

Doing your first tax return can be pretty daunting. Here are some helpful tips to get you through it.

If you are earning or will earn more than $20,542 this year, a tax return will need to be lodged. You should also lodge a tax return if you earned less than that amount, and your employer took tax out of your pay, as you may receive that tax back.

The first step is working out where all of the income earned has come from. Most of your income is automatically uploaded to the ATO, be it from your wage or via interest from a bank account. Income that you might have received but that has not been sent to the ATO could include tips, income earned while working under an ABN (think gig economy) or distributions from a family trust. These amounts will need to be worked out and included in your tax return.

You will be entitled to certain tax deductions as well for things such as:

- Uniforms and protective clothing.
- Certain travel expenses between workplaces (but not from home to work).
- If an apprentice or trainee, any tools or equipment that you may have had to buy out of pocket.
- Union fees.
- Any donations you make.
- Costs incurred in the course of educating yourself (courses, seminars, training etc.).

It is important to understand that, when claiming something as a tax deduction, you don't receive all of the money back that you spent on the item. You will instead get the tax rate of your earnings back on the total cost, which can be quite low for people entering the workforce.

If your income is above a certain threshold, you may also have to make HELP or HECS debt repayments which could impact what you get back from your return.

Now may also be the time to check on your superannuation. If you are full time or earn more than $450 per month as a casual employee, your employer must pay money into your super. It might not be the most pressing concern in your thoughts, but acting now with regard to your super could have long term benefits. Make sure that you are receiving superannuation and that it is placed in the most suitable portfolio for you.

2021 End Of Financial Year Business Checklist

Businesses

Pay quarterly super

Super Guarantee (SG) contributions must be paid by 30 June 2021 to qualify for a tax deduction in the 2020-21 financial year. The fund must receive these contributions by 30th June. Some clearing houses can take more than a week to submit the payment to the super fund. Always ensure that superannuation is paid before June 20th.

Review capital expenditure

This financial year, the instant asset write-off allows eligible businesses to instantly deduct any amount spent on assets in their upcoming tax return. Remember only to buy items that are needed and not spend money on others to claim a tax deduction.

Small business CGT concessions

Individuals operating a small business may be eligible for capital gains tax (CGT) concessions on the sale of business assets. The small business CGT concessions are available to business taxpayers with an aggregated turnover of less than $2 million or on business assets less than $6 million. If a business you own has sold or you are thinking of selling, speak with us as soon as possible.

Stocktake

Obsolete, slow-moving or damaged stock should be identified by 30 June and disposed of for income purposes to receive a deduction. You should minimise the amount of stock on hand at year end.

Contact the ATO

The ATO is responsive to businesses struggling to keep on top of their tax obligations due to COVID-19. Businesses struggling to meet their tax obligations should contact the ATO to discuss deferring payments, make variations to PAYG quarterly tax instalments, or change their GST reporting cycle from quarterly to monthly to receive quicker access to GST refunds.

Defer income

Businesses may wish to delay tax payments on assessable income this financial year by deferring invoices until after 30 June. Income from the payments won't be taxed until the following financial year.

Family Trusts

Remember that family trusts must decide who is receiving the trust's income and capital before June 30th. These days with digital signing, accountants must work through the family trust to ensure that they know how to distribute the income before June 30th.

Bad Debts

Bad debts are a significant cost to all businesses that sell on credit. There is no sense in paying tax and GST on sales where payment will not be received, so reviewing any bad debts before the end of the year is important. The rules around claiming a tax deduction for bad debts are complicated, so speak with us if you believe you have debts that can be written off.

Significant Changes To Instant Asset Write-Off

Instant asset write-off policies have been expanded again as part of the Government's COVID-19 initiative to encourage business spending to increase cash flow, stave off an economic recession, boost consumption and protect employment.

Last year, an increase in the instant asset write off allowed the writing off of the cost of purchasing an asset up to $150,000. In the November 2020 budget, the government extended this allowance even further.

There is now no limit to the amount a small business can write off under the instant asset write-off. This is now known as "temporary full expensing" and is available for any asset purchased between 7.30 pm AEDT 6 October 2020 to 30 June 2022.

It even applies to second-hand assets (where your turnover is under $50 million.

Businesses in a position to invest in equipment may be able to take advantage of the write-off and offset against their taxable income for the year and at the same time invest in improving business efficiency. Purchasing later in the tax year (June) as opposed to early in the new year (July) gives a benefit sooner in the tax savings that are made on that purchase.

Though writing off all of the assets this year may result in significant tax deductions, it may also mean that there are no tax deductions for depreciation available in future years. Upon the sale of any of these assets, this will be treated as taxable income, and tax will have to be paid on the sale value.

Superannuation Strategies For 2021

Super contributions are one of the areas that individuals need to review each year according to their circumstances.

Tax deductible (Concessional) contributions

Concessional contributions are before-tax contributions made into a super fund. They include employer contributions, salary sacrifice payments and personal contributions that can be claimed as a tax deduction. In the 2020-21 financial year, the concessional contributions cap is $25,000 for all ages but will be increasing to $27,500 in the new year.

Suppose your total superannuation balance was less than $500,000 on 30th June 2020. In that case, you may be entitled to carry forward your unused contributions, contribute more than the general concessional contributions cap and make additional concessional contributions for any unused amounts. This is particularly useful for people who have made capital gains or are approaching retirement. Accounting firms and financial planners can help you determine just how much money you can contribute to super this year and still be entitled to a tax deduction.

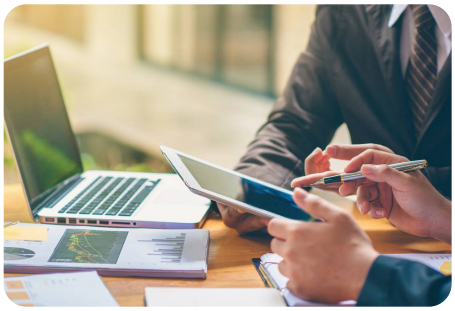
Concessional contributions are taxed at 15%. Individuals may also pay Division 293 tax, which is an additional tax on concessional contributions for individuals whose combined income and contributions are greater than $250,000.

Non-concessional contributions

Non-concessional contributions are paid into super funds from after-tax income. They include contributions made by individuals or their spouse to a super fund where contributions are not claimed as an income tax deduction. The annual non-concessional contribution cap for the 2020-21 financial year is $100,000 and is increasing to $110,000 in the new year.

Eligible individuals may make bring-forward contributions, allowing them to bring the next two years of their annual non-concessional contributions cap forward into the current financial year without breaching the contributions cap.

Non-concessional contributions are not taxed unless the caps are exceeded.



Gains Or Losses From Cryptocurrency

Over the past twelve months, popular cryptocurrency giant Bitcoin has boomed whilst other coins have lost value. There are special tax rules that need to be followed for cryptocurrency.

The tax office now has access to crypto transactions that can be obtained from digital currency exchanges. Now more than ever, records must be kept regarding cryptocurrency, and any income or losses from trading are declared.

Tax treatment of crypto transactions is dependent on an individual's circumstances. Some people will have capital gains and losses from their crypto transaction, but others will have income tax gains or losses.

It is also essential to understand if there may be any tax implications from transacting in a foreign country.

When trading or transacting in cryptocurrencies in any way, discussing the best way to go about it with an accountant could save you a lot of trouble in the long run.

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