IN THIS GUIDE:

- Deadline approaching for CGT relief
- Preparing for Single Touch Payroll
- Year end 2018 checklist
- And more

YEAR END STRATEGIES

THE 2017/2018 TAX GUIDE FOR YOU AND YOUR BUSINESS

hooper accountants

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 2017/18 and start planning fresh for next year.

Tax tips for investment property

One of the greatest benefits of owning an investment property (besides the additional income) is your entitlement to tax benefits.

Here are some tips to maximise your tax return this 2017/18 financial year:

Expenses you can and cannot claim

While your property is rented or available to rent, you can claim immediate deductions for rates and taxes, property management fees, insurance, body corporate fees, cleaning and gardening, and repairs and maintenance when your tenants were living in the property. You can claim deductions for capital works (building costs) and borrowing costs over several years. Costs related to the property purchase such as stamp duty, as well as expenses paid by a tenant cannot be claimed as a deduction.

Apportion expenses

If your rental property is only available for rent for part of the year, only part of the property is available to rent, or the property is rented at non-commercial rates, you must apportion your expenses to determine the deductible amounts.

Prepay interest

Property investors who have adequate cash flow to prepay interest on a loan can do so and claim an immediate deduction. It is also possible to prepay and claim a deduction for your upcoming property insurance premiums.

Bring forward maintenance expenditure

If there are maintenance tasks that you know will need to be completed then you may wish to complete them before 30 June in order to minimise your tax bill in the current financial year.

Record keeping measures

Investors must keep good records to substantiate their claims. The ATO requires you to keep records such as proof of earned rental income, all expenses incurred, periods of private use by you or your friends, periods the property was used as your main residence, loan documents and efforts to rent out the property.

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Preparing for Single Touch Payroll

The Tax Office is urging employers with 20 or more employees to prepare for the introduction of Single Touch Payroll.

From 1 July 2018, Single Touch Payroll will be introduced requiring employers to report their employee's tax and super information to the ATO through Single Touch Payroll approved software.

Employers will report each time they pay their employees, i.e., weekly, fortnightly or monthly. The information that will be reported includes withholding amounts, superannuation liability information or ordinary times earnings (OTE) and salary, wages, allowances and deductions.

Employers must prepare by organising the following:

- Determine how many employees they have as of 1 April 2018 to check if there is 20 or more. If numbers drop down to 19 or less, you will still continue to report through Single Touch Payroll unless you apply for and are granted an exemption.
- Talk to your software provider about how and when your product will be ready.
- Those without a software provider will need to find a provider that offers Single Touch Payroll.
- Update your payroll software when it's ready.
- Start using Single Touch Payroll.

Employers with 19 or less employees have until 1 July 2019 to prepare, however, they can start reporting as soon as their software is updated.

Keeping on top of your bookkeeping

The Australian Tax Office (ATO) is homing in on small businesses failing to comply with guidelines regarding appropriate record keeping.

Findings from the ATO's Protecting Honest Business campaign indicate that one of the leading factors for small business failure is poor record keeping practices. Small business owners are required to disclose particular information, and keep records of the following:

- Income tax records
- Income and sales records
- Expense or purchase records
- Year-end records
- Bank records
- Goods and services tax records
- Employees and contractors records
- Fuel tax records

With year-end approaching, employers should be mindful of keeping records such as lists of creditors or debtors, and expenses incurred buying, maintaining, repairing and selling business assets or stock. Worksheets must also be kept to calculate depreciating assets, stocktake sheets and capital gains tax records.

By law, all Australian businesses must keep records for a period of five years. These records must be in writing, either on paper or electronically. Dedicating time each week, fortnight or month to compile all the above-listed information will prevent you from incurring fines and potentially losing your business.

ATO targeting holiday homes

The Australian Tax Office (ATO) is focusing on rental property owners this tax season with a large number of mistakes, errors and false claims made by some using their own property for personal holidays.

The ATO is reminding owners they cannot claim deductions for holiday homes that are not actually available for rent or only available to friends and family.

Private use is entirely legitimate although it does reduce an owner's ability to earn income from the property.

Properties must be genuinely available for rent to claim deductions. This means you cannot use the property for your personal use or let friends and family stay rent-free and claim a deduction.

For those who rent the property to friends or family at mates rates, they must only claim deductions for expenses up to the amount of the income received.

In addition to rental properties, the ATO is investigating cases where taxpayers claim their property is available for rent but there is no intention of renting it out. Rental rates well above market rates and unreasonable conditions for prospective renters are just a couple of ways owners can be doing this.

The ATO will also be scrutinising incorrect rental property claims. Data matching technology allows the Tax Office to pick up attempts at over-claiming regardless of whether the mistake was deliberate or an accident.

Property owners are advised to double-check their claims before lodging their tax return. They must remember to declare all rental income and only claim deductions for periods that the property is rented or genuinely available for rent at market rates.

End of financial year: super strategies

As the end of financial year is fast approaching, it pays to start thinking about how you can grow your superannuation while seeking some generous tax breaks.

Spouse contributions

The spouse super tax offset allows higher earning taxpayers who contribute super for their non-working or low income earning partners to be eligible for a tax offset. To be eligible for the maximum offset of $540 for the 2017/18 financial year, you must contribute to your spouse's super fund (whether de facto or married) and your spouse's income must be $37,000 or less. For income above $37,000, the tax offset will gradually reduce and completely phase out at $40,000.

Government co-contribution

Low to middle income earners can receive a government co-contribution of up to $500, provided they meet eligibility criteria. To receive a co-contribution you must have made one or more eligible personal super contributions during the financial year, be less than 71 year old at 30 June, not hold a temporary visa at any time during the financial year (unless you are a NZ citizen or it was a prescribed visa) and you must lodge your tax return for the relevant financial year.

Additionally, you must pass two income tests (income threshold and 10% eligible income test). If your total income is equal to or less than the lower threshold ($36,813 for 2017/18) and you make personal contributions of $1,000 to your super account, you will receive the $500 contribution. If your total income is between the lower threshold and the higher threshold ($51,813 for 2017/18), your maximum entitlement will reduce as your income rises. Also, 10% or more of your total income must come from employment-related activities, carrying on a business, or both.

Contribution caps

Concessional (before-tax) contributions include employer contributions, salary sacrifice and personal contributions you claim as a personal super contribution deduction. The concessional contributions cap is $25,000 for everyone as of 1 July 2017.

The non-concessional (after-tax) contributions cap is $100,000 per year for the 2017/18 financial year and future financial years. Individuals aged between 65 and 74 years old can access this cap provided they meet the work test. If you have a total super balance greater than or equal to the general transfer balance cap at the end of 30 June of the previous financial year, your non-concessional cap is reduced to nil.

Year end 2018 checklist

Now is the time to start planning and reviewing your records to maximise your tax deductions for the 2017/18 financial year.

Here are our ten top tips for year-end tax planning for businesses and individuals:

Businesses

Pay quarterly super

Super Guarantee (SG) contributions must be paid before 30 June to qualify for a tax deduction in the 2017-18 financial year. Consider bringing forward June quarter SG payments to increase the benefit.

Write-off bad debts

Review your debtor list to identify those who owe you money but are unlikely to pay. Write-off bad debts before 30 June - the debt must not be merely doubtful and must have been previously included as assessable income.

Prepaid expenses

Small business entities may bring forward deductible expenses such as rent, repairs and office supplies, that cover a period of no more than 12 months.

Stocktake

Trading stock should be reviewed before 30 June to identify any obsolete, slow moving or damaged stock. Obsolete stock must be physically disposed of for income purposes to receive a deduction.

Defer income

Businesses can benefit from deferring invoices until after 30 June. By delaying income, in effect you defer paying tax on that income for the financial year.

Individuals

Depositing contributions

All of the contributions that have been recorded for your SMSF need to be deposited in the SMSF's bank account by no later than 30 June 2018. This is especially important where members have reported concessional or non-concessional contributions.

Capital losses

Consider selling loss-incurring assets, such as shares, to help offset your tax liability from any capital gains on other assets.

Trust resolutions

Trustees of discretionary trusts must make and document resolutions prior to 30 June 2018 regarding how trust income will be distributed among beneficiaries.

Self-education expenses

To obtain a deduction for self-education expenses, such as course fees, textbooks, stationery, etc., your study must either be work-related or you receive a taxable bonded scholarship.

Home office expenses

Business owners operating from home can claim deductions for expenses such as room utilities, i.e., gas and electricity, business phone costs, motor vehicle expenses, depreciation and occupancy expenses, such as rent, mortgage interest, etc.

Deadline approaching for CGT relief

SMSF trustees electing to apply transitional CGT relief to their 2016/17 returns or amend a previously lodged return will need to do so before 30 June 2018.

Transitional CGT relief was introduced after the 1 July 2017 to allow SMSF trustees who adjusted their asset allocations to comply with the transfer balance cap and transition to retirement income stream reforms.

The CGT relief ensures that, for certain assets that were supporting super income streams in retirement phase before 1 July 2017, an SMSF trustee can still receive a tax exemption on capital gains accrued but not realised.

CGT relief will apply differently, depending on what method was used to calculate exempt current pension income (EPCI) at the start of the pre-commencement period - from 9 November 2016 to 30 June 2017.

There are two methods:

- **Segregate:** calculated your EPCI by selecting specific assets to support your income streams.
- **Proportionate:** calculated your EPCI by allocating a percentage of income streams.

Where the fund is 100 per cent in pension phase, the ATO will accept that the fund is using the segregated method.

Regardless of which method is used, your fund must have held the assets throughout the entire pre-commencement period and must have been a complying super fund from 9 November 2016 until the date of relief is applied.

If a trustee changed from the proportionate method to the segregated method between 9 November 2016 and 30 June 2017, they are not eligible for CGT relief under either method.

Effects of CGT relief

The deemed sale when CGT relief is applied creates a capital gains event for that asset, and when the asset is deemed to be repurchased it has the effect of being a new asset for CGT purposes. The asset must then be held for at least 12 months after this time to qualify for the CGT discount.

The indexation method for assets originally acquired before 21 September 1999 will no longer be available.

CGT relief can apply at the parcel-to-parcel level for shares or units, meaning the trustee can choose which particular shares in an overall holding to reset the cost base for. For unit trusts, CGT relief applies to the units, and not the underlying assets held by the trust.

SMSF trustees are reminded that CGT relief is irrevocable, so appropriate planning and care should be exercised.

Getting GST right

Business owners have the advantage of claiming a credit for any GST included in the price of goods and services purchased for their business. However, many businesses fail to claim their credits correctly.

The vast majority of mistakes are avoidable and relate to claiming credits for ineligible items or including GST-free items. Here are three top mistakes:

- **Not registered for GST:** To claim a GST credit, your business has to be registered for GST.
- **Claiming GST-free purchases:** Businesses can only claim GST on goods and services where the supplier has included GST. To find the GST paid, check your tax invoice instead of dividing your total business purchases by 11.
- **Not keeping records:** GST is not claimable if you do not keep valid tax invoices for business purchases over $82.50, including GST. Documents such as bank statements, purchase orders or delivery receipts are not sufficient to meet the tax invoice requirements.

Crackdown: work-related expenses

The Tax Office has it sights on ‘other’ work-related expense deductions this tax time.

The ATO will be paying close attention to claims for work-related expenses at label D5 this year. Before an individual makes a claim, they must show that they spent the money themselves and were not reimbursed; the expense was directly related to earning their income and they have kept a record to prove it.

Taxpayers are reminded to apportion their claims for work and private use, as deductions can only be claimed for the work-related portion. For example, if you use your mobile phone or internet for work and personal purposes, you can only claim the percentage that reasonably relates to work use.

Individuals must also be aware that they are not automatically entitled to claim standard deductions. It is necessary to keep evidence of how the claim was calculated, i.e., records of incurred expenses and so forth.

Before claiming a deduction, individuals must consider if their employer would confirm the expenses were required to earn their income and that they were not reimbursed. Remember, receiving an allowance from an employer does not necessarily entitle you to a deduction.