The BOTTOM Line

2014 TAX TIME tips

It will soon be tax time again, so get an early start by turning your mind now to what you can do to reduce your tax bill for 2013-14.

PUSHING TAXABLE INCOME INTO 2014-15

The Medicare levy rate is increasing from 1.5 percent to 2 percent on 1 July 2014. This means a number of things:

- More of your income will be lost to tax next year than this year
- The value of deductions for expenses will be greater next year than this year
- The usual practice of deferring assessable income and bringing forward deductions wherever possible is somewhat diluted

Either way, the time value of money remains an incentive to push taxable income into next year wherever possible. Here are some of the ways to do that.

- Where possible, arrange your affairs in such a way such that interest bearing investments, dividends, royalties and rental income fall due after 30 June. That way, you won't have to pay tax on them this year.
- Bring forward deductible expenses. The types of expenses that lend themselves to this kind of manipulation include:
  - work-related expenses (e.g. self-education, uniforms, subscriptions)
  - interest expenses on investment loans, which can sometimes be prepaid
  - the cost of repairs to assets such as rental properties or certain items of equipment
  - donations and gifts to deductible gift recipients
  - home office expenses (but be wary of getting too overzealous with claiming occupancy expenses such as mortgage interest, rates etc. because this will impact your ability to sell your home tax-free down the track)

Some of these expenses can be deducted only if you have substantiation, complete a log book and/or keep a travel diary – so make sure you have all these things in order before year end lest your claim for deduction be denied completely by the ATO.

- Schedule the signing of contracts for the sale of assets to get you the best result (this will depend on whether the sale will give rise to a gain or loss and whether you have losses from other CGT events this year or earlier years).
- If you are a small business entity (that is, you turnover less than $2 milllion per annum) consider making a prepayment of business expenses (e.g. rent, insurance, interest) so as to gain the benefit of the deduction in the 2013-14 year.
- A deduction for directors' fees, bonuses etc. can be achieved for the 2013-14 year by ensuring that a properly authorised resolution to pay the amount has been passed before year end. If this is done it won't matter that the amount may not be paid until next year.
- Review debtors and write-off bad debts by 30 June if you want to claim bad debt deductions in the 2013-14 year. Ensure that there is physical evidence that the debt has been written-off (e.g. an accounting entry or a decision made in writing at the board meeting). It is not enough to simply make a provision for a bad debt.

SUPERANNUATION

Speak to your adviser to ensure that all your superannuation affairs are in order prior to year end:

- Have your annual superannuation contribution caps been fully exploited, but not exceeded? Remember that if you are over 70 and working, your employer has likely started making Superannuation Guarantee contributions on your behalf this year.
  - Taxpayers aged 59 years or over on 30 June 2013 can make 'before-tax' superannuation contributions of up to $35,000 for the 2013-14 year. Other taxpayers can make only $25,000. A work test applies if you are 65 years and over.
  - The limit on making superannuation contributions after tax increases from $150,000 this year, to $180,000 for the 2014-15 year. This presents some significant planning opportunities for people aged under 65 at any time during the financial year (who have access to a three year 'bring forward' rule), because they can effectively increase the cap from $450,000 to $540,000 over three years if they wait until after 30 June 2014 to trigger the bring-forward rule. Talk to your adviser for more detail.
  - Low to middle income earners (including self-employed persons) should consider making personal superannuation contributions prior to 30 June so as to qualify for the government co-contribution payment.
  - If less than 10 percent of your income is from employment, it may be worth making a deductible personal superannuation contribution prior to 30 June.
  - It is critical that SMSF trustees make minimum annual pension payments to members before year end. If this is not done, the fund may be liable to a greater amount of income tax.
  - Take care when choosing to make before tax superannuation contributions (employer contributions and/or deductible personal contributions) that eligibility for certain means tested benefits (such as the Family Tax Benefit) is not unwittingly jeopardised, as certain superannuation contributions are included in the relevant income tests.
  - The move to including excess concessional contributions in the member's assessable income and taxing them at the member's marginal rate may present some significant planning opportunities that you might want to talk to your adviser about.

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DEPRECIATION

Depreciation is an area, particularly if you run a business that turns over less than $2 million, that can yield good tax benefits from just a little bit of planning. So it is always wise to review your depreciating asset register for opportunities to maximise your capital allowance deductions for the year.

- If you are a small business entity some assets can be written off in their entirety in the year they are first used or installed ready for use:
  - assets used or installed ready for use before 1 January 2014 that cost more than $999 and less than $6,500; and
  - assets costing less than $1,000 regardless of when they were first used or installed ready for use. (Talk to us about the 2013 election commitment regarding possible further changes to depreciation)
- Setting up a depreciating asset pool for tax purposes can not only save you some administrative hassle, but also save you some tax. If you are a business with annual turnover of less than $2 million you can choose to add all your depreciating assets to a pool (except those that can be written off up front, as outlined above). Larger businesses can choose to pool assets costing less than $1,000. If you do choose to set up a pool, there is significant benefit to be had in allocating assets to the pool and/or making repairs to assets already in the pool, just before year end. Speak to your adviser for more information.
- Consider making repairs to other depreciating assets prior to 30 June so as to gain the benefit of the deduction in the 2013-14 year.
- Are there any depreciating assets that can be scrapped (i.e. assets that are obsolete or unwanted)? If the resulting balancing charge is a deductible amount, consider scrapping such assets before year end.

OTHER OPPORTUNITIES

Net Medical Expenses Tax Offset

If you are entitled to the Net Medical Expenses Tax Offset in 2013-14 be sure to claim it. It will be available in 2014-15 only to taxpayers who have received it both this year and last year.

Trading stock

Assess current trading stock and consider the impact of alternative valuation methods. For example, where the market value of trading stock at 30 June is below cost price, using the market value will result in a better tax result. Also identify any obsolete stock for which a deduction may be available.

Non-commercial loans from private companies

Shareholders who have borrowed money from their company must repay the loan in full or ensure that the appropriate loan agreements are in place, otherwise the amount may be treated as an assessable dividend to the shareholder. Speak to your adviser if you are unsure.

Loss-making businesses run by individuals

If you are an individual running a business, or an individual running a business in partnership, and are likely to make a loss this year, speak to your adviser about what might need to be done before year end (in terms of meeting certain tests of your income and/or the size and profitability over time of the business) to ensure that the loss can be offset against your other income (e.g. salary and wages or investment income).

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