



Everyone is interested in paying the least amount of tax they can, and why not?

Come June, every man and his dog starts to think about how much tax they are paying (or more accurately, how much of a refund they could get), and how they can reduce the amount of tax they pay.

This brochure is all about the little tips that will help reduce the amount of tax you pay.

The General Principal of Deductibility

To claim pretty much any tax deduction, there has to be a "nexus" or connection between an expenditure and income that the expense helps create or maintain. While the expenditure doesn't have to be absolutely necessary, you must be able to show that you incurred the expense with the purpose of gaining greater income.

If you have an expense and want to claim it, keep this "nexus" in mind.

Documentation

It goes without saying that in order to claim deductions, access concessions and offsets, and to avoid penalty tax rates that you need to keep various records and documentation to comply with the Law.

You can go to all the effort in the world to effectively (and legally) reduce your tax, but if your documentation can't back it up, the ATO will disallow it upon audit.

Individuals

Individuals are the hardest group to do any last minute tax manipulation with for one main reason - many salary & wage earners don't have to spend much money in order to earn their income.

In pretty much all cases, you have to actually spend money to get a tax deduction (the nerve of the ATO!!), which means for an individual, getting that "extra" tax deduction is difficult.

Tips for all individuals include:

- Keep details of your medical expenses (after Medicare and private health benefits) for you, your spouse, and all your dependants - if they are above \$2,000, you can potentially make a claim. **Warning: This is being phased out by the Government;**
- If one person of a couple earns very little, a dependant spouse rebate may be available. **Warning: This is being phased out by the Government;**
- If your spouse is on a low income, you can claim a tax rebate for making contributions into their superannuation fund; and
- Income protection insurance is deductible for an individual, but life insurance, trauma insurance etc is not. It may be beneficial holding life insurance etc in your superannuation fund as most of these are deductible to your super fund (however if you collect on the insurance, the proceeds may be taxable).

Salary & Wage Earners

Following is a short list of the types of expenditure that are tax deductible:

- Stationery etc used at work or in your home office (assuming you use your home office for work purposes);
- Travel expenses incurred while working (not getting to and from work unless there are special circumstances - such as you must drive because you have bulky tools that can't be transported any other way);



- Uniforms required to be worn (purchase plus maintenance / laundry);
- Home office expenses such as electricity (if you do some work from home);
- Income protection policies;
- Tools purchased for work; and
- (Generally) any other items that are incurred to help you earn your income.

Contractors

The ATO's definition of contractor is very different to what you may believe a contractor to be.

From the ATO's point of view, a contractor is not simply someone with an ABN - a contractor must be actually running a business, which means advertising, supplying all their own tools and materials, controlling their work and hours of work, being able to say no to jobs, etc.

The ATO make this distinction to prevent people that should be on wages, and do the same job as someone on wages, from getting an ABN and claiming a heap of deductions that a salary & wage earner cannot.

A "genuine" contractor (in the ATO's eyes) can claim extra tax deductions such as:

- Travel to and from work (on the basis that their home is their "base of operations");
- Payments made to others for the upkeep of records (i.e. bookkeeping);
- Purchase of tools and equipment;
- Advertising;
- The cost of employing people; and
- Other business like expenses (see below).

Businesses

Some businesses calculate their tax on a cash basis (i.e. you only pay tax when income is received, and only get deductions when expenses are paid), and some on an accrual basis (i.e. when you receive/send the invoice).

This can be used to your advantage by choosing the method that is best for your business. A business with little creditors and large debtors are better accounting on a cash basis as they will defer paying tax on the debtors until next year when received. However, a business with few debtors and larger creditors will be better on an accruals basis as they will be able to claim a tax deduction for those creditors when they get the bill, not having to wait until they are paid.

Tips for businesses:

- For those businesses with a few extra dollars in the kitty, contributions into super is very tax effective and has the benefit of saving for your retirement (keep in mind the contribution caps however);
- Superannuation is not deductible until received by the superannuation fund (which is technically different to paid by the employer because there can be delays in using a clearing house), so consider paying your employees June amounts in June instead of July;
- Client gifts are deductible as long as they are not excessive. Consider buying some of your clients a gift to say thank-you;
- If you know you will incur expenses early next year, go out and buy them before the end of June;



- Check your list of debtors and write-off any that will not be collected - why should you pay tax on money you will never receive?;
- Ensure that you value your trading stock correctly - closing stock is essentially an add-back and reduces the amount of the stock purchases that are claimable in the current year;
- Closing stock can be valued at the lower of cost, replacement value, or net realisable value. The lower your closing stock, the greater your deductions for purchases are;
- FBT can be minimised by employee contributions - but be wary, it may be less tax effective in some circumstances;
- Small businesses are able to write off asset purchases worth up to \$20,000 (greater than this and the whole amount is depreciated) - so keeping asset purchases under the threshold will save you more tax now. **Warning: This is only relevant for a couple of years.**
- Declare Directors fees and employee bonuses before the end of June, even if not paid - as long as there is an unconditional liability to pay;
- "Small businesses" can prepay expenses up to 12 months in advance and claim a tax deduction as long as at least one day of the expense relates to the current financial year;
- If you receive money for work you have not yet completed, it is not taxable until you actually perform the work - you just have to let us know so we can make the correct adjustments;
- Review your asset list (named depreciation schedule in the financials that we send out) to ensure you still hold of the listed assets. Any that have been scrapped may be eligible to be written off for some extra deductions now;
- If part of business is being innovative (be it designing new plant to use in your business, creating software, etc) then you may be eligible for an R&D Tax Offset; and
- With the company tax rate reducing (and a similar discount for non-incorporated businesses), it is doubly beneficial to bring expenses into the current year (to claim a deduction at the higher tax rate) and defer income to the later year (to have it taxed at the lower rate) where possible and relevant.

Investments

Regardless of whether you are an individual or a business, there are some tips to help you lower the tax you pay on your investments:

- Borrow to buy investments, not to buy personal items. Pay down private loans where possible and keep the investment loans (although you are always better off with no loans, so when your financial position allows you to repay the investment loan, do so);
- If your investments are going to be negatively geared, you get a better tax outcome if it is owned by the spouse with the highest income (and therefore in the higher tax bracket). Just be aware that when sold, the capital gain is also taxed at the higher rate – so do the maths to work out the best overall outcome);
- You can prepay for many expenses (such as rates, insurance, repairs, interest on loans, etc) and claim the full amount now;
- Keep details of all expenses you paid out for the purchase - some may be deductible now;
- If you are going to sell an investment, remember it's the date of the contract, not the date of settlement that determines what year it is taxable in;
- If you are going to make a capital gain, do you have any assets in a loss position you could also sell to reduce the gain?



- Hold onto investments for at least 12 months to get the CGT Discount (not applicable to Companies) which reduces the taxable amount of the capital gain by 50% (33.3% for SMSF's); and
- If you buy an asset that you intend to lease out (e.g. rental property), any repairs you do to get it ready for rental are not deductible. If you wait until after it is rented, you have a much better chance of it being deductible.

Superannuation

Strategies around superannuation include:

- Utilise as much of the contribution limits as the Government allows to get as much income taxed at 15% as possible (currently \$30k for under 50, \$35k over – proposed to reduce to \$25k for all);
- If you have significant money in term deposits, shares, etc in your personal name and are paying more than 15% on the earnings, consider contributing those into superannuation where it can potentially be taxed at 15%. **Warning: 2016 budget announcements may limit the effectiveness of this – please seek professional advice based on your individual circumstances.**
- Consider splitting contributions to a spouse that is older so that they can be accessed earlier tax free;
- Ensure that contributions are cleared in the superannuation fund by June 30 - contributions that are late go towards next years cap, regardless of the date on the cheque; and
- If you are over 55 and still working, it can be tax effective to start drawing a pension and recontributing a similar amount back to super via salary sacrifice. This strategy can get complicated, but with the right advice works quite well. **Warning: 2016 budget announcements may limit the effectiveness of this – please seek professional advice based on your individual circumstances.**

Trusts

Some tips that are specific to trusts are:

- Where a trust makes a loss, it can't pass that loss on like it does with profit. The losses carry forward, but you may not get the benefit for a long time. To counter this, either get some profit making activities into the trust, or get those loss making ones out;
- In addition, where a loss making trust has franking credits, those credits are lost - so avoid this situation whenever possible;
- Trusts can only use prior year losses under certain circumstances, which can at times be complicated. If your trust has losses, ensure you meet the relevant tests; and
- Knowing what Centrelink benefits you get, as well as any children can help work out the most effective way to distribute the trust's income. (i.e. if you lose Family Tax Benefit by distributing to a certain person, maybe it's not the best outcome even if you save some tax).
- Many trusts (namely discretionary trusts) have to make the determination / decision to distribute its income in order to avoid the trust tax rate of 46.5% (going to 47%). This determination must be made before 30 June and should be in writing (or else how do you prove you made it?).

For example: Mr. & Mrs. A run their business via their discretionary trust which makes a profit of \$40,000. Ideally, they would distribute this income to themselves and pay their marginal tax rate on this income (which may be as low as \$0). If they fail to make that decision before 30 June, they could end up paying \$18,600 in tax - a massive difference.



Companies

Company specific tax tips include:

- Company losses can only be claimed in certain circumstances - generally the company either has to run the same business, or have the same owners. If your company has losses, ensure that you always meet one of these tests so you can claim the loss later; and
- When running a company, typically you as the owner and manager would draw wages. If possible, ensure you draw as much as possible without personally going into a personal tax bracket much above 30%. You are better off paying 30% in your name than 30% in the company name as you now have personal access to those funds. If you wait until you need them, you may get pushed into a higher tax bracket.

Disclaimer

We have provided this document as a very basic guide which is intended to assist people in improving their understanding of the tax laws and how they operate. When considering what actions to take however, there are more factors that should be considered.

This is not intended to be a comprehensive document that can be taken as tax advice, financial advice, or any other kind of advice. The content does not take into account any of your personal circumstances and is only generic in nature.

This document is not to be taken as advice under any circumstances. If you are considering acting based on anything written in this document, we suggest you seek professional advice first.

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