NEWSFLASH

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BAN TACS Accountants Pty Ltd is a CPA Practice

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Welcome to the BAN TACS News Flash. Our aim is to provide short but succinct updates on all tax issues

Column by Noel Whittaker

There may be no tax cuts coming on 1 July, but it's *still* smart in most cases to bring tax-deductible expenses into this financial year if possible. It may be getting a bit late to paint your investment properties or do major repairs on them, but a deduction that is available to all investment borrowers is pre-paying interest.

Let's assume you have an investment loan of $200,000 at 6% and that it is on an interest only basis as I have always recommended. If you earn $100,000 a year now and prepay a year's interest, that's $12,000, your tax saving will be $3850. A benefit of doing this right now is that you will have protected yourself from any interest rate rises in the next 12 months if they should occur.

Make sure you liaise with your lender because you can't simply plonk $12,000 into the loan account and then claim a tax deduction for it. Doing it this way will result in the lender simply taking the repayment off the principal and you suffer a double whammy. You will not be eligible for a tax deduction of $12,000 and you will have reduced your tax-deductible debt by $12,000 and, with it, your future tax deductions.

Be careful if you have a line of credit loan as they work like conventional bank overdrafts. They do offer greater flexibility than ordinary fixed rate interest only loans but, unfortunately, this flexibility does not extend to prepaying interest.

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Small Business Accelerated Depreciation

From the 1st July, 2012 small business have been allowed an immediate write off for any plant and equipment they have purchased that cost less than $6,500. This amount was originally intended to be $5,000 but as part of the carbon tax package it was increased to $6,500. Accordingly, if we have a Liberal Government next year the threshold may well be reduced back to $5,000 so get in quick if you are looking to purchase assets between $5,000 and $6,500 in your small business.

To qualify as a small business your turnover needs to be under $2million.

Donations

Before you make a donation make sure the charity is tax deductible. This can be done very simply by going to http://www.abn.business.gov.au/ putting in the charity's name and checking it has "deductible gift recipient status"

While I have your attention, can I encourage you to make a tax deductible gift to The Tabitha Foundation Australia which builds houses and wells for the poor in Cambodia? This is a project supported by Margaret Lomas where 100% of the money received goes directly into the project. Margaret and her group will all be paying their own expenses and also contributing to the materials as well. To find out more please go to http://www.tabitha.org.au/cms/the-property-people-house-builders--oct-2013 Tabitha Foundation Australia's ABN is 26 098 852 763

Bringing Forward Expenses

Payments in advance:

You can only pay a maximum of 12 months in advance. In the case of interest payments check if the bank will let you do this and that they do take it as an interest payment not just let it reduce the loan balance.

If you have recently purchased a property consider organizing your quantity surveyors report before the end of the year so that you get a tax deduction for the cost in your 2013 tax return.

If you pay rates, insurance or body corporate fees in advance think carefully about the no more than 12 months in advance rules. For example if your body corporate fees are already paid up to 31st December then you can go and pay another 12 months' worth, you need to just pay 6 months extra.

Repairs and maintenance:

You need to make sure you at least incurred the expense before the end of this financial year. This means organising for the work to be done even if you have not paid for it yet. This is particularly important if your tenants have moved out and you do not intend re letting the property. If you don't "incur" the repairs now you will not be entitled to a tax deduction next year because the property has not earned any rental income in that year.

So just what is classed as a repair? Initial repairs are not deductible. If the house needed painting when you bought it then painting it would be an improvement. On the other hand if during the time of your ownership the paint starts to peel and you repaint, these expenses would be a deduction.

A repair can become an improvement, which is not deductible, if it does not restore things to their original state i.e. replacing a metal roof with tiles. But a change is not always an improvement. The ATO says the cost of removing carpets and polishing the existing floorboards is a deductible repair yet underpinning due to subsidence is considered to be an improvement.

Tree removal is claimable if the trees have become diseased or infested during the time of ownership. Removal is also claimable if the tree is causing damage such as roots interfering with pipes and the damage was not present when you purchased the property. If a tree is removed because it may cause damage in the future or you are fed up with the leaf litter that has always happened since you bought the property, then you are making an improvement which is not deductible.

Take care to perform repairs only when the premises are tenanted or in a period where the property will be tenanted before and after with no private use in the middle. It is better not to make repairs in a financial year during which you may not receive any rental income. If a property is used only as a rental property during the whole year then a repair would be fully deductible even though some of the damage may have been done in previous years when the property was used for private purposes.

Don't replace something in its entirety. For example replace a worn fence a bit at a time over a few years rather than all at once. Replacing all the cupboards in a kitchen so they match rather than just the damaged one will mean that none of the expenditure is deductible on the other hand replacing a vanity can be deductible as a repair if the pipes from the old vanity are used

Buying plant and equipment:

As these items are usually depreciated over many years buying them towards the end of the financial year could mean you only qualify for one month's depreciation which would be a very small fraction of what you have spent.

For rental properties and work related expenses items costing $300 or less can be written off immediately. Like items must be added together when applying the $300 test so it may be better to buy

one set of curtains this year and wait until July before you buy the next set. Items costing under $1,000 will qualify for depreciation of 18.75% in the first year, regardless of when you purchase them. Both these thresholds are per owner so a $1,900 hot water system for a property owned by 2 people would qualify as under $1,000, likewise if a range hood cost $500 yet there are two owners of the property then it can be written off immediately.

Businesses with a turnover of less than $2million can claim an immediate deduction for any plant and equipment they buy that costs less than $6,500.

For motor vehicles costing more than $6,500 the business will be allowed a depreciation deduction of $5,000 in the first year plus 15% of the balance left after deduction the $5,000 from the cost. The next year the depreciation rate will be 30% of the remaining un-depreciated balance. Motor vehicles include cars, 4wds, trucks, vans, Ute, motorbikes and scooters. The vehicle can be second hand. The price of the vehicle may need to be apportioned between business and private use, if the business use portion is $5,000 or less then it can be completely written off but when it is sold the business portion of the sale proceeds must be added back to the pool.

For other plant and equipment costing more than $6,500 the depreciation rate is 15% in the first year and 30% diminishing rate after that. Of course it is only the business use portion of an asset that can be written off or added to the pool so for example if you were to purchase a computer for $2,000 that was going to be used half for business and half for private use you would only be able to write off $1,000. Further, later improvements to the equipment have to be added to its original price and other improvements to determine whether they qualify for immediate write off or the pool. So if a tow bar worth $500 was later added to a forklift that cost $6,500 the tow bar would have to be depreciated in the pool because it took the whole asset over the $6,500 threshold even though the forklift still qualified for immediate write off. There is no grouping provisions for identical items or those forming part of a set. Which effectively means a $10,000 set of spanners could qualify as under the $6,500 threshold.

Once the pool balance drops below $6,500 it can be written off. These concessions will not work for leased equipment.

Businesses with a turnover exceeding $2million can only put items costing less than $1,000 into a low value pool, which are then depreciated at 18.75% in the first year the 37.5% diminishing rate.

All thresholds mentioned in regard to business are after deducting the GST if the business qualifies to claim GST input credits.

Year End Superannuation Contribution Must Knows

Please make sure that you also read newsflash 270 for information on the timing of your superannuation contribution.

Superannuation Concessions for Low Income Earners

The government will make a co contribution of up to $500 into your superannuation fund if you contribute $1,000 out of your after tax pay that you don't claim a tax deduction for. Neither yours nor the government's contributions are taxed going into the superannuation fund. The $500 is reduced by 3.333 cents for every dollar that the taxpayer's total income exceeds $31,920 so people with a total income of $46,920 will not qualify for any co contribution. Total income for co contribution purposes is your assessable income plus reportable fringe benefits and reportable superannuation contributions (i.e. those salary sacrificed), Assessable income is your taxable income before deductions. This means if you own a rental property with someone else then only the profit after deductions is included in your assessable income but if you solely own it in your own name then none of the deductions are taken into account and all the rental income is included in your assessable income. In the case of self-employed their assessable income is not reduced by any superannuation contributions for which they claim a tax deduction. Sole traders are allowed to reduce their assessable income by business deductions. In the case of partnership or trust income it is only your share and the net amount (income less deductions) that is included as assessable income, regardless of whether it is business or passive income.

Further you need to be less than 71 years of age at the 30th June, the work test applies between 65 and 70 (40 hours in 30 days) and you need to receive at least 10 per cent of your income from being employed including self-employed. When doing this calculation, sole traders can ignore business expenses which will make it quite easy to pass the test. Note trust income even if from a business is still considered passive so you may need to consider having the trust pay you a wage.

Spouse Contribution

The other low income concession is for taxpayers on any income level who have a low income spouse. If the low income spouse has assessable income plus reportable FBT and reportable superannuation contributions of less than $10,800 their spouse can make a superannuation contribution for them of up to $3,000 and receive a tax offset of 18%. A tax offset reduces the amount of tax the higher income spouse has to pay. It can mean that you will receive a refund of any tax you may have paid during the year because the offset is used to pay the tax instead but if the higher income spouse's income is so low that they do not have any tax liability then the offset is wasted. So this arrangement is only beneficial when the spouse making the contribution has a taxable income above $18,200. As the superannuation contribution for a low income spouse is not actually claimed as a tax deduction it is not taxed in the hands of the superannuation fund. If the low income spouse's assessable income plus reportable fringe benefits and reportable super contributions is more than $10,800 but less than $13,800 the higher income spouse will still qualify for some tax offset the shade out rate is 18%.

The work test applies between 65 and 70. Once the spouse reaches 71 no spouse contributions can be made.

There is a nice little trick if the low income spouse is between 55 and 65 and retired. The contribution can be made and then withdrawn, tax free, a few days later yet the high income spouse will still qualify for the tax offset.

In all cases above, make sure the money is actually in the superannuation fund before 30th June, 2013.

The Fine Print on Qualifying To Make a Superannuation Contribution

According to ID 2012/16 every two years you have the opportunity to double your deductible superannuation contribution. This may be useful if you get caught this year with an exceptionally large income, but as it cuts out the cap for the next year it should only be used for unusual fluctuations in income such as the sale of a property. This is simply a heads up; do not attempt this strategy without careful planning and professional advice.

If you do not have employer support, and you are under 65 years of age you can make a tax deductible superannuation contribution for yourself up to the age base limit of $25,000. Once you reach 65 years of age you need to satisfy a work test to qualify to make superannuation contributions. This means the person must have worked more than 40 hours in a period of 30 days or less in the financial year the contribution is made. Careful here, if you retire at the 30th June and decide to make a superannuation contribution for yourself the very next day you will not meet the work test because the contribution was made in a different financial year.

If you are 65 years of age or over your employer is entitled to make a superannuation contribution for you and claim it as a tax deduction providing it is only the amount your employer is required to contribute under the superannuation guarantee or your award. There is one exception to this rule, if you are less than 69 years of age and satisfy the work test above your employer's contribution is not limited to the guarantee or the award, so you can utilize salary sacrifice.

If you are between 65 and 75 years of age but satisfy the work test you are entitled to make a superannuation contribution. If you do not have employer support you will be entitled to claim the contribution as a tax deduction providing it is less than $25,000. You have up to 28 days after your 75th birthday to make the contribution.

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Disclaimer: Please note in many cases the legislation referred to above has only just passed through parliament. The full effect is not clear yet but it is already necessary to make you aware of the ramifications despite the limited commentary available. On the other side of the coin by the time you read this information it may be out of date. The information is presented in summary form and intended only to draw your attention to issues you should further discuss with your accountant. Please do not act on this information without further consultation. We disclaim any responsibility for actions taken on the above without further advice as to your particular circumstances.