BAN TACS
National Accountants Group

**NEWSFLASH BOOKLET**

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# 2018/19 Finanical Year End Tax Strategies

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**Please note this booklet is updated in May each year. Until the budget is released our strategies for the year are not certain. This booklet is provided to give you some guidelines in planning but please check with your Accountant before you commit.**

## Introduction

This booklet contains clever year end strategies and helps ensure you avoid the common traps and pitfalls of your yearend tax planning. Please check through the headings that apply to you, and remember our contact details are above should you have any further questions.

Before embarking on any year-end tax strategy, it is first important to consider whether you are going to be in a higher tax bracket in next financial year. For example if you know you will sell an asset (your holiday home, a large parcel of shares) or if you suspect/know that your salary will be increasing in the following year.

Knowing what your tax brackets will be in the upcoming financial year helps you and your tax agent decide how we will manage your income/deductions in the upcoming years. For example, if you know that your income will increase in the upcoming year it may be wise to delay paying for any work-related expenses (deductions) until the financial year where your income will be higher. Conversely you may declare any known one-off payments in the current financial year where your income is lower. Knowing that you will be in a higher tax bracket in the next year then it may be wise to claim deductions in the coming financial year, rather than the current one or claim income in the year in which you will be earning less.

One of the most effective tax planning strategies is to level out your income over each member of your financially dependent family over 18. It does not particularly matter that the amount of income is the same each year and the same for each family member, all that matters is that the tax bracket is the same.

Also consider your position with Centrelink, is it worth dragging your income down this year to qualify for more because next year your youngest child will be too old for you to qualify for any payments? Centrelink recipients should consider that increasing investment losses (such as investment property interest in advance) will not help because these are added back.

# Personal Income Tax Rates

The tax rates for the 2018-2019 financial year and the 2019-2020 financial year are the same. You pay no tax at all if your income is under $20,542 due to the low-income tax offset. The marginal rates are:

| Your Taxable Income | Tax Offset |
|---|---|
| 0% | $18,200 |
| 19% | $18,201 to $37,000 |
| 32.5%* | $37,001 to $90,000 |
| 37% | $90,001 to $180,000 |
| 45% | $180,001 + |

Note rates do not include Medicare Levy – generally 2%
*Can be as much as 34% while low income tax offset shading out.

But that is not all if your income is under $90,000 you may also qualify for a tax offset.

| Your Taxable Income | Tax Offset |
|---|---|
| Under $37,001 | $255 |
| $37,000 to $48,000 | $255 + 7.5% of amount your income exceeds $37,000 |
| $48,001 to $90,000 | $1,080 |
| $90,001 | The offset starts to reduce at the rate of 3 cents for every dollar over $90,001. Resulting in people earning $126,000 a year will not be entitled to any tax offset |

The exciting thing about this offset is that it has not been included in your take home pay so there should be a sizable refund in your next tax return. There maybe some problems with this in the 2019 tax returns as it has not yet made its way through parliament.

Note the above offsets are in addition to the existing low-income tax offset of $445 that starts to shade out at the rate of 1.5 cents for every dollar over $37,000 completely disappearing at $66,667 for the 2018-2019 financial year. After that it will increase to $700 but shade out at the rate of 5 cents for every dollar between $37,500 and $45,000 after that it will only shade out at the rate of 1.5 cents in the dollar disappearing completely at $66,667.

**Foreign Residents**
For Foreign Residents their tax rate starts from the first dollar at the tax rate for income under $90,000. Once it exceeds $90,000 the rate is the same as it is for residents once they reach $90,000 but no Medicare Levy.

# Have you Lodged your 2018 Tax Return?

Before 30th June, 2019 there are a couple of things you must do regarding your 2018 tax return or you stand to lose a lot of money.
If you receive family payments from Centrelink and have not lodge your 2018 tax return by 30th June, 2019 you will be required to repay all of your Centrelink payments.

If you want to claim a tax deduction for personal superannuation contributions in your 2018 tax return you need to have notified your superannuation fund by 30th June, 2019.

# For Employees

In an audit situation the ATO has one size fits all trump card. They simply ask you for a letter from your employer verifying all your claims. Without a letter they will deny even the most legitimate claims. The difficulty here is that audits tend to happen a couple of years after the expenses have been incurred. By then you may have a new job, your supervisor has left or your employer has gone broke. It is best to get a letter each year off your employer. The letter should cover the following issues, if they apply to you:

- Whether you need to use your car for work
- Whether you need to use your phone for work
- Tools you need for the job, whether they in total would weigh more than 20kg
- Whether you are required to purchase your own tools and whether you have been reimbursed
- Whether you are provided with your own personalised locker to store your tools
- Requirement to wear a logoed uniform (registered design number) or protective clothing
- Details of any allowances appearing on your PAYG summary
- Whether there is a requirement to travel for your work, and the nature of such travel
- If you are undertaking any work-related studies a statement that this is relevant to your current employment or future promotion:
- Whether you had more than one workplace in a day
- Whether you were required on occasion to work somewhere other than your normal workplace

As you can see a letter of this nature may be difficult to obtain, Good luck with that, you can see why it is such a winner with ATO auditors. If your employer will not provide you with this letter then make sure you keep proof of their negative response as we believe this will be helpful, considering that there is no requirement for such letters in the substantiation legislation.

You need a phone diary to claim more than $50 for phone calls on a phone you own. This diary can be created from and detailed monthly statement you receive with your phone bill. Just go through and mark the work-related calls and work out what percentage they are of your total calls. If you don't get a detailed statement then you need to take a screen shot of your recent calls for the last month. Print it and work out the work-related calls. Make sure you do this before 30th June, 2019.

If you are using an office at home for work purposes then keep a diary for one month of how many hours you use it. If you want to claim computers and the like you will also need a diary for one month showing the ratio of business to work use. Download a template here https://www.bantacs.com.au/shop-2/diary-template/

Make sure you take your speedo reading at 30th June 2019 just in case we need it. If you need a log book to claim your motor vehicle expenses make sure you start it before 30th June 2019. Without a log book you can only claim up to 5,000kms per car at 68 cents a kilometre. You are required to have a detailed reasonable estimate of the deductible kilometres travelled. If the journeys are repetitive just keep a one month diary and multiply the kilometres by the relevant number of months (don't forget holidays). For one offs it is better to list each one of them with a date, where and why. If you forgot to set the trip meter www.whereis.com is a great help if you do forget.

If you want to claim more than 5,000kms you need to base your claim on a percentage of the actual expense incurred which means you need to keep receipts (fuel can be calculated) all year, each year and a log book for 3 months every 5 years to work out the portion that will be tax deductible. It is sufficient to start the log book before the end of the financial year in which you are making the claim. More on this in our booklet http://www.bantacs.com.au/booklets/Claiming_A_Motor_Vehicle_Booklet.pdf

You can claim a deduction for work related course fees you pay now even though you won't undertake the study until next year. Any study you claim as self-education must be connected to the income you are currently earning (either to maintain or improve your specific skills or knowledge) or is likely to result in increased income from existing income earning activities. Merely doing a course while working full time does not make the course deductible. Be careful of excessive claims for travel overseas and luxury courses. You need to prove that these expenses are essential to your current work. It is best for all courses that you get a letter from your employer saying they are relevant.

# Individuals in General

Before you make a donation, make sure it will qualify for a tax deduction by checking their ABN here http://www.abn.business.gov.au/Tools/DgrListing

Stay clear of tax minimisation products as these are often (almost always) scams. Sold as reducing your taxable income, but mainly for the purpose of increasing the scammers taxable income. This refers to investments specifically designed to reduce your tax. Firstly, these products generally shift the tax to their pockets as they carefully arrange the investment so it is only marginally better than the tax saving and then only if the forecasts are correct. Secondly do not enter into these arrangements unless you have a product ruling from the ATO and make sure the arrangement is in accordance with that ruling.

If you place money on term deposit and the interest is not payable until the next financial year there is no requirement to accrual interest earned in this financial year.

# Companies

Companies need to consider which franking rate they are subject to in the 30 June 2019 year, and which rate they will be subject to next year. If the company is likely to move from a 30% franking rate in 2019 to a 27.5% franking company in 30 June 2020, there may be advantages in paying franked dividends prior to 30 June 2019. This does not apply to companies that only have passive income.

Do you owe your company any money? If possible, it is wise to pay this back before 30th June, 2019 but don't go just drawing the same amount back out again the next day!

# Trusts

Make sure you have a distribution minute in place before 30th June, 2019.

If your trust has investments from which that it will receive a franking credit, it is important that this franking credit can be distribute to a beneficiary in the current year or it will be lost. To be able to distribute the franking credit you need to have profits to distribute and the franking credit does not count towards those profits. If in doubt please do interim accounts and see whether you need to draw income into 2019 rather than expenses or stop paying yourself wages.

# Self-Managed Superannuation

If your fund is in pension phase it is very important that you draw the minimum amount of pension required for your age, before 30th June, 2019. If you don't, instead of being tax free all the income for the year will be taxed at 15%! Here are the percentage of your funds that you must draw down, depending on your age:

| Age | Minimum Pension Amount |
|---|---|
| Under 65 | 4% |
| 65-74 | 5% |
| 75-79 | 6% |
| 80-84 | 7% |
| 85-89 | 9% |
| 90-94 | 11% |
| Over 95 | 14% |

With your own SMSF you can utilise a reservist strategy that will allow you to draw into this year, next year's $25,000 cap. As explained in the introduction this should only be considered when you expect your income to be lower next year as it is a one-off tax advantage.

A reservist strategy allows you to make a contribution to the fund less than 28 days before the end of the financial year. The fund can hold it in reserves for that period and not declare it as your contribution until July, yet you still get a tax deduction in June. Needless to say, this requires professional advice.

From TD 2013/22 the ATO accept that a member of a SMSF who only qualifies for a $25,000 cap can claim a tax deduction of $50,000 by making two $25,000 contributions in the same financial year.
Example:

- Harry's concessional contributions cap for the 2013-14 financial year is $25,000. Harry is a member of a complying superannuation fund which is not a constitutionally protected fund. Harry makes a personal contribution of $25,000 which is received by his fund on 30 June 2014. The Trustees apply this amount to an unallocated contributions account established in accordance with the governing rules of the fund. On 2 July 2014, the trustees allocate the amount of $25,000 to Harry's member account in the fund with effect from 2 July 2014.
- Harry's contribution is covered by a valid and acknowledged notice given to his fund under section 290-170 of the ITAA 1997 of his intention to deduct the amount of the contribution.
- The $25,000 contribution is included in the amount of Harry's concessional contributions for the 2014-15 financial year as an amount covered under subsection 291-25(3) of the ITAA 1997.

Take care to read the ruling in detail before implementing this strategy, for example the governing rules of the fund must allow contributions to be placed in an unallocated account and there must only be one member's contribution in that account.

# Small Business

Any business that has an employee is now required to use single touch payroll, starting from 1st July 2019. Please make sure you are set up before this.

You cannot accrue superannuation contributions. For a business to be entitled to a tax deduction for the superannuation contributions, it makes for its employees, the money must have reached the superannuation fund's bank account before 30th June, 2019 which is a Sunday so you are really looking at before 28th June 2019.

If you are not a sole trader, your business owns your phone and it is used more than 50% of the time for work purposes the business can claim a full tax deduction for the phone plan. If you do not qualify for this concession make sure you keep a record of one month's calls and dissect them between work and private use. You can use the itemised list of all calls that comes with your bill or screen shot a month's recent calls.

If you are doing some work from home keep a diary for one month of the hours the home office is used.
Take the speedo reading of all vehicles at 30th June, 2019 and if it has been 5 years since the last one make sure you start a log book before the 30th June, 2019.

If you estimate the difference between the value of your stock at 1st July, 2018 and 30th June, 2019 to be more than $5,000 you need to do a stock take.

If your business is running at a loss and you want to offset that loss against your other income the easiest way is to make sure you sell more than $20,000 worth of goods. Note this won't work if your adjusted taxable income is more than $250,000. For more information regarding this please visit this link: tohttps://www.bantacs.com.au/booklets/Division_35_Offsetting_Business_Losses_Booklet.pdf

If you need to reduce your income you could consider the immediate write off for acquisitions of up to $30,000 (GST exclusive if you qualify for GST input credits) but make sure you do interim accounts and run this by your Accountant first. The threshold was increased to $30,000 on 2nd April other than the amount changes the rules are the same. If your low value pool balance has reached less than $30,000 you can write it off. The equipment must be installed and ready for use in the year you claim it. This concession will not apply to equipment you lease so make sure you use another method of finance.

Please note that once you have bought plant and equipment under the threshold and written it off, your responsibility does not finish there. Each year, for the next 3 years, you have to review whether the ratio of business and private use has remained the same. If it varies by more than 10% you have to make an adjustment to the amount you have written off.
Here is a link to a blog with all the detail https://bantacs.com.au/Jblog/the-25k-immediate-writeoff-clever-trick/#more-201

Has your business made a capital gain that you were considering rolling into another asset? The small business rollover concession effectively allows you to ignore a capital gain until the replacement asset is sold. With the immediate write off concessions it is better to declare the capital gain, not roll it over. Then buy the replacement asset and offset the immediate write off against the capital gain. Cancelling it out once and for all rather than having it raise its ugly head again when you sell the replacement asset. In short if the replacement asset is less than $30,000 it is better not to utilise the CGT replacement asset rollover concession.

# Rental Properties

As discussed in the introduction check that you are not going to be in a higher tax bracket next year before you take deductions from that year and bring them into this year.

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 treat it as an interest payment not just let it reduce the loan balance. If you pay rates, insurance or body corporate fees in advance think carefully about the no more than 12 months in advance rule. If your body corporate fees are already paid up to 31st December 2019 you can't pay another 12 months' worth, you need to just pay 6 months extra.

With repairs and maintenance, you have to at least incur 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. Reference IT 180.

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 so only depreciated at 2.5%pa. By the way you do not need a quantity surveyors depreciation report to claim the depreciation, you simply need the receipts for the expenses you have incurred.

A repair is not deductible if it is an improvement. An improvement is restoring the property to a condition that is better than the state it was in when you bought it. A repair can become an improvement, if the repair goes beyond just restoring things to their original state, for example replacing a metal roof with tiles is not a repair. 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. Pulling up old floor tiles and replacing them with similar tiles would be a repair as long as the tiles were in good condition when you purchased the property.

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. 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.

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 tax deductible, it will only be useful in your CGT calculation.

As plant and equipment 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. Don't forget unless it is brand new to you there is no tax deduction.

Items costing $300 or less, per owner, 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, per owner, will qualify for depreciation of 18.75% in the first year, regardless of when you purchase them, then 37.5% in following years. A $1,900 hot water system for a property owned by 2 people would qualify as under $1,000, likewise if a range hood costing $500 can be written off immediately.

Properties in the ACT are subject to a 99-year lease. This means that the stamp duty you pay on purchasing the property qualifies as a tax deduction because it is a lease expense. If you buy a rental property in the ACT before the 30th June you would qualify to deduct, this year, all the stamp duty paid on the sale providing you intend to use it as a rental property all the time you own it. You just need to prove your thoughts. The portion of the stamp duty you can claim is based on the amount of time you are going to use it to produce rent as opposed to other purposes, over the full time you own it. If later you do change your mind that is ok, you do not have to pay back the deduction but best have a change of circumstances or the ATO will claim it had always been your intention not to use it 100% as a rental property. The portion, if any, of the stamp duty that you don't claim can increase the cost base. References 25-20 ITAA 1997, PBRs 1012017306675 and 22429. Note this is not a recommendation to buy property in the ACT.

Be careful, some commercial tenants, for their own tax planning strategy, may want to pay rent in advance. Unless you can apply the Arthur Murray principle, so claim that there is a risk that you may have to refund that income, then you are stuck with declaring it as income in the year received.

# Capital Gains

Are you considering selling a rental property before 30th June, 2019? The date the contract is signed determines the year that the capital gain is taxed, not the date it is settled so there may be some room here for careful planning.

Generally, the approach is to delay signing until after 30th June. If nothing else at least you get to utilise the tax money for a year. Just be careful. If you are going to be in a higher tax bracket next year, considering how low interest rates are, this could be a false economy.

This year there is another consideration to throw into the mix. From the 1st July 2019 we now have catch-up superannuation contributions. Provided your superannuation balance at 30 June 2019 is less than $500,000. This means that the unused portion of your 2018/2019 $25,000 contributions cap can be carried over to 2019/2020 allowing you to make a contribution larger than $25,000 in the 2019/2020 year.

If you are prepared to put some of the sale proceeds into superannuation in order to reduce the effective tax rate from your personal, marginal rate, to possibly as low as 15% then the $25,000 cap is a problem with a large capital gain all in one year. This new concession doesn't allow you to spread the gain over multiple years but it does allow you to spread your contributions cap over a number of years which can be just as good.

For example, if your employer pays $10,000 a year into super in both 2019 and 2020 then each year you have $15,000 available that you can contribute yourself and claim a tax deduction in your personal tax return. If you sign the contract before 30th June, 2019 then you can only put $15,000 of the sale proceeds into superannuation and claim a tax deduction for them. Alternatively, if you delay signing until July, 2019 you will be able to contribute and claim a tax deduction for $30,000.

There are some twists and turns in working out whether you qualify to make superannuation contributions and what is unused. Your employer contributions may be made either side of 30th June. Here is a link to my blog on how this works and how to get your Accountant the information they need to help you. https://bantacs.com.au/Jblog/how-to-make-your-own-super-contributions/#more-309

If you are making a capital loss that can be carried forward to offset against future capital gains. But if you already have a capital gain in your 2019 income then you need to make sure this loss is in the 2019 financial year if you want to offset the gain you have already made. This means you should try and sign the contract before 30th June.

Trying to create an artificial capital loss by selling off undervalued shares and them buying them back won't wash with the ATO. According to TR 2008/1 they consider these wash sales a scheme with the dominant purpose of a tax benefit so caught by Part IVA.

# Superannuation

Catchup Contributions:
The big news this year is the catch-up superannuation contribution. Each individual is only allowed to contribute a maximum of $25,000 a year into superannuation and claim a tax deduction for the contribution. The $25,000 cap includes employer contributions. Starting this year, if you don't use up your full $25,000 cap the unused portion can be used to increase your cap next year. The catch up only started on 1st July, 2018 so you can't use any unused cap from the 2018 financial year in this financial year. The strategy this year is all about whether to contribute now or save it for next year. Note there is one catch, that your superannuation balance needs to be less than $500,000 at the start of the year.

Concessional (tax deductible) Contributions:
The laws have changed, employees don't need to salary sacrifice to make tax deductible contributions to superannuation. They can now make the contributions themselves and claim it as a tax deduction when they do their tax return. The contribution you make will be taxed at 15% going into the fund (30% if you are a high-income earner) but when you lodge your tax return you can expect to get a tax refund of the amount of the contribution multiplied by your marginal tax rate.

If you want to make sure your whole $25,000 cap is used up then you need to know when your employer intends to make their contributions for you. They have up to 28 days after the 30th June, yet the cap is based on the actual amount received by the fund. Here is a link to a blog that explains what you need to do to take this concession right up to the wall. https://bantacs.com.au/Jblog/how-to-make-your-own-super-contributions/#more-309 When negotiating your salary package consider including a clause requiring your employer to physically make the superannuation contribution in the month that it is sacrificed. Due to data matching the ATO will always be informed should your cap be exceeded.

Non-Concessional (non-deductible) Contributions:
If you have more than $1.6 million in superannuation already you will not be permitted to make any further non-deductible (non-concessional) contributions to super. You are only left with the $25,000 concessional contribution if you otherwise qualify.

The non-concessional cap is $100,000. You have to be under 75 years of age and if between 65 and 74 satisfy a work test (40 hours within 30 days). If you are under 65 you can use the draw forward provision to contribute $300,000 in one year but you can't contribute under this method for the following 2 years.
If you are looking to get the maximum amount into superannuation as soon as possible consider only making $100,000 contribution before 30th June then another $300,000 in July.

Spouse Contributions:
If your spouse receives $37,000 or less in the total of assessable income (no deductions), fringe benefits and employer super contributions, then you can access the maximum tax offset of $540, provided an after-tax contribution of at least $3,000 is made by you into your spouse's superannuation account. Under $3,000 the tax offset is 18% of the amount contributed. This contribution is not taxed going into the fund. 18% is not a bad return on investment. If your spouse's income is over$37,000 the tax offset is then progressively reduced until the tax offset reaches zero when your spouse's income reaches $40,000. If your spouse has exceeded their non concessional contributions cap for the financial year or their superannuation balance exceeded $1.6 million by the end of last financial year, then they do not qualify to receive a spouse contribution. Further, your spouse needs to be under 65 or between 65 and 69 and pass the work test of 40 hours in a 30 day period. The relevant age is the age at the time the contribution is made.

Co Contribution from the Government:
You need to be under 64 years of age or between 65 and 70 but pass a work test of 40 hours in any 30-day period. Your income needs to be Under $37,697 for the full contribution after that it shades out at the rate of 3.33% until your income reaches $52,697. The Co Contribution made by the government is up to 50% of your contribution to a maximum of $500. Your contribution must be paid from after tax dollars. There is no tax payable when the contribution goes into the fund. You need to lodge a personal tax return to trigger the contribution into your superannuation fund.

How to work out your income:
The income thresholds for the spouse contribution and the co contribution are based on the assessable income of the person receiving the contribution (gross or total income before deductions) plus reportable fringe benefits and salary sacrificed superannuation contributions. When it comes to rental properties, if that person owns them with someone else then it is the net income from the rental property i.e. after deductions but if they own the property in their name only, the deductions are ignored, the rent is added to your assessable income.
If the person whose income is being measured has also made a deductible contribution for themselves their assessable income is not reduced by that contribution for the purposes of this test.
Temporary residents do not qualify for the spouse or co contribution, though it is hard to understand how the ATO would be able to spot this as temporary residents who have set up home here and have a job are classed as residents for tax purposes.

Downsizing Home and Superannuation Contribution**:**
If you are 65 years of age or older you can make a downsizer contribution to your superannuation but it must not exceed the sale proceeds of your house and it must not be more than $300,000. Each member of a couple gets the $300,000 threshold even if the house is only in the name of one member. The property must have qualified for the CGT main residence exemption at least part of the time it was owned and it must have been owned for more than 10 years.
This concession can also be used when selling a farm with a home on it. The relevant sale proceeds in this case are the proceeds received for the whole farm. Reference GN 2018/2

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