profitfocuspartners
BUSINESS AND TAXATION CONSULTANTS
Your Business Partner

Year End Tax Planning

What is tax planning?

Broadly, tax planning is the process of organising the affairs of a taxpayer or group of taxpayers so that, as far as legally or commercially possible, their liability for taxation is minimised.

Tax planning is not limited to complex, high risk or sophisticated arrangements, often the simplest of strategies can be the most effective.

The basics of tax minimisation

There are five methods for a taxpayer to minimise their taxation liability:

1. Reduce assessable income
2. Divert assessable income
3. Increase/ maximise allowable deductions
4. Maximise tax credits and offsets
5. Minimise marginal tax rate

The golden rule to tax planning

"There is no point giving up a dollar to save at best 46.5 cents unless there is a residual benefit"

Taxpayers with Structures

The number one way to minimise tax is to ensure you have the right structure.

There have been a number of legislation changes, ATO rulings and court cases over the past 24 months. Due to these changes, taxpayers' current structure may no longer be the best available.

What is a structure trying to achieve?

1. Paying tax at the lowest marginal rate possible (now and in the future)
2. Asset Protection
3. Allow access to the maximum amount of taxation exemptions and concessions. For example the Small Business Capital Gain Tax Concessions and Research and Development.

For Taxpayers with structures encompassing a company, the second most important tax minimisation strategy is avoiding Division 7a. This links back to having the best structure, as the right structure can help avoid Division 7a.

Other opportunities include:

1. Superannuation contributions (Cash and Non Cash items)
2. Do not exceed superannuation contributions caps as it could result in 91% tax.
3. Pre-payments (There are limits)
4. Write off obsolete stock and or assets
5. Write off bad debts
6. Value stock at the lesser of cost or net realizable value
7. Pay employees superannuation before 30th of June

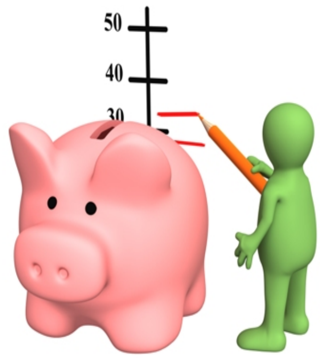
8. Prepay statutory imposed expenses as they are exempt from the prepayment rules i.e. Work cover and Land tax
9. Maximising availability to concessions and exemptions (without compromising asset protection) these include but are not limited to Capital Gains concession and exemptions, Small Business Concessions, offsets and rebates.
10. Income splitting (Utilising taxpayers with the lowest marginal tax rate. **NOTE minors will be limited to a trust distribution of $416 from 1 July 2012 or pay tax at 46.5%.** Look to transfer assets while the market is down could result in less capital gains tax and stamp duty
11. Small Business Entity Regime (Business less than $2m turnover)
12. Ensure Carried Forward Losses can be utilised
13. **Holding insurances policies in the most appropriate name and structure can make the difference between the proceeds being taxable or non taxable.**
14. Obtaining a quantity surveyor report for deductible property to maximize any depreciation/ amortisation claim.
15. Ensure Business Blackhole expenses are being amortised over 5 years
16. Negative gearing (Consider the Risks)
17. Defer purchase of small business assets (Less than $2m turnover). From 01/07/12 small businesses can instantly write-off assets costing up to $6,500 (up from $1,000). Also and immediate deduction of the first $5,000 on motor vehicles acquired from 01/07/12.
18. Watch for tax traps with the use of company assets for personal use.

Taxpayers with Personal Return [Self employed (business or investor) and employed]

1. Superannuation contributions (Cash and Non Cash items) (10% rule for self employed and Salary Sacrifice for employees)
2. Pre-payments (Individuals prepay deductable expenses up to 12 months in advance)
3. Write off obsolete stock and/or assets
4. Maximising availability to concessions and exemptions (without compromising asset protection) these include but are not limited to Capital Gains concession and exemption, Small Business Concessions, offsets and rebates.
5. Negative Gearing (Consider the Risks)
6. Live in a rental property before it's rented (Up to 6 years Capital Gains Tax free using the main residence exemption. Only one property at a time can use the exemption)
7. Taxpayers aged 55 or above consider a Transition to Retirement Income Stream
8. Keep receipts for anything you think could be deductible and let your accountant determine if it's deductible.

   a. Maximise deductions! There are several was to do this. There are four different methods for claiming deductable Motor Vehicle travel (Keep a log book and receipts)

   b. Interest on investments (Structure facilities correctly to minimise non deductable interest) (Be careful of Split loan facilities)
9. Bring forward any capital losses to offset gains (Be careful of wash sale agreements)
10. Salary Sacrificing (FBT exempt items, Motor Vehicles with low private use and if employed by a Public Benevolent Institution maximise FBT exemption limit
11. Income Splitting (Holding positively geared investments in a Family Trust or in a Spouses name who's marginal tax rate is lower and like wise negative geared investments in the taxpayers name with the higher marginal tax rate.)
12. Maximise government benefits.



Self Funded Retirees

1. Converting superannuation fund in to pension phase (Self managed or industry)
2. Transferring as many income generating investments into superannuation as possible.
3. Taxpayers under 60 to limit withdrawals from super as they will most likely be taxable.
4. Taxpayers over 60 to limit withdrawals to living expenses as holding cash and earning interest in a taxpayer's individual name could result in taxation liability.
5. Watch SMSF pension minimum and maximums
6. Look to utilise franking credits that have accrued in a private company to generate tax refunds.
7. If the above strategies are unable to reduce a Self funded retiree's taxable income below the effective tax free threshold they can apply some of the above strategies for an individual.

Should you have any queries or require further information, please do not hesitate to contact us.

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