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[Our Services](#)

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[Careers](#)

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YEAR END TAX PLANNING

With June 30th just around the corner, here is a list of things you should consider to help reduce paying unnecessary tax and assist with ensuring that your tax affairs are in order:

FOR INDIVIDUALS

Super co-contribution

- If you are an employee earning under \$58,000 you will be eligible for a super co-contribution provided you make an undeducted contribution into your superfund before 30 June 2007.
- The government will put in \$1.50 for every \$1 you contribute up to a maximum of \$1,500. The co-contribution reduces by 5c for every dollar that you earn above \$28,000 and phases out completely at \$58,000.

Child care rebate

- Keep your receipts for your child care expenses. 30% of your out of pocket expenses incurred in the 2005/06 are claimable in the 2006/07 tax year, provided you used approved child care, and received CCB.

Medical expenses

- You can claim 20% of your out-of-pocket eligible medical expenses over \$1,500 that you and your dependants incur during the tax year. Your private health fund and Medicare should be able to provide you with a summary of your expenses for the year.

Motor vehicle expenses

- If you are an individual or partnership you have a choice of four methods of claiming motor vehicle expenses:
 - Log book method
 - One-third of total expenses method
 - 12% of cost method
 - Cents per kilometre method

Travel allowances

- If your company or trust employs you and you need to travel for your work activities it can pay you a reasonably based travel allowance. You can then claim a tax deduction at the public services rate amounts under tax determination TD2006/43 without needing to provide substantiation.

Prepayments

- Individuals can pre pay expenses up to 12 months in advance e.g. interest on borrowings to fund investments, payments for seminars booked in advance etc.

Salary Sacrifice

- Consider putting in place a salary sacrifice arrangement for the next tax year for things like super contributions or a laptop.
- To be effective the salary sacrifice arrangement must be in place before the relevant salary has been earned by you.

FOR YOUR BUSINESS

Bringing forward income

- If you are expecting a low profit this year but a high one next year, you can bring forward income by doing the following:
 - Valuing trading stock on hand at selling price rather than cost
 - Holding off making purchases or payments so they are claimable next year
 - Arrange for customers to bring forward income payments to you

Bringing forward expenses

- If you are expecting a high profit this year but a lower one next year, you can bring forward expenses by doing the following:
 - Stock up on consumable stores such as stationary, oil, safety equipment, motel supplies, farm chemicals, fertiliser etc.
 - Pre paying expenses - see next point.
 - Get any repairs done on plant or property now instead of next year.

Prepayments

- Simplified Tax System (STS) taxpayers can pre pay expenses up to 12 months in advance e.g. rent, insurance, rates.
- All other taxpayers can fully claim amounts up to \$1,000, as well as any amounts required to be paid by law, e.g. vehicle registration (other prepayments must be apportioned)

Superannuation contributions

- If you are self employed or run your business through a company or trust, consider making tax deductible contributions to super.

Directors fees and bonuses

- Companies can claim directors fees and bonuses that have not yet been physically paid as long as a resolution has been passed by shareholders to authorise the payment. The directors and employees will be taxable on the amounts when the amounts are actually received i.e. next tax year.

Partnerships - payments to partners

- Remember that payments to partners e.g. salaries or interest are

not deductible expenses of the partnership. They are just distributions of the partnership profit.

Motor vehicle expenses

- If your business is a company or trust all motor vehicle expense can be claimed in full BUT you will be liable for fringe benefits tax on any un-reimbursed private usage relating to your employees.

Loans to shareholders and associates

- If your company has lent money or paid personal expenses for its directors, shareholders or associates during the year, they need to repay these by 30 June 2007. Otherwise these loans must be formally documented and repaid with interest under the requirements of Division 7A.
- If your company is the beneficiary of a trust and the trust has made loans to shareholders or associates these must also be attended to.

Tax related expenses

- If you are a public officer of a company you can choose to pay the costs of managing your company's tax affairs and claim these as a deduction in your personal tax return. This will create an overall tax saving if your personal tax rate is higher than the company's 30% tax rate. This will be the case if your taxable income is over \$75,000 for the 2007 tax year.

Non-commercial business losses

- Are you a sole trader or partner in a partnership? If your business in making a loss you can only offset this against your other income if the business passes the following tests.
 - Assessable income test – gross business income over \$20,000
 - Profits test – your business earned a profit in 3 out of the past 5 yrs
 - Real property test – you used business real property valued at \$500,000 or more (excluding your main residence)
 - Other assets test – you used other assets valued at \$100,000 or more (excluding vehicles and land)
- If you are a primary producer and your assessable income from non-primary production sources (except any net capital gains) is less than \$40,000, the four tests above do not apply.

Bad debts

- You can claim a deduction for bad debts if the amounts have previously been included in your assessable income. These will need to be physically allocated as bad debts within your accounting system prior to 30 June 2007.

Work in progress (WIP)

- Don't forget to make a note of the amount of your WIP at 30 June 2007.
- Trading and manufacturing businesses should use cost.

- Professional or service businesses only need to bring into account WIP where a recoverable debt has been crystallised i.e. the work is invoicable.
- Construction businesses need to account for progress payments received or certified.

Stock on hand

- Don't forget to count your stock on hand at 30 June 2007.
- Each year you can choose to value your stock at either,
 - Cost
 - Market value
 - Replacement value
- Use the lowest of the three alternatives unless you are expecting high income in the following year and want to bring forward some of that income.
- Obsolete stock can be valued at lower figures as warranted.

Remember you should have a commercial reason for your actions – don't do things just for a tax break, think long term too!

The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, please contact your local Forsyths office.