

# Improve tax planning

June 30 is rapidly approaching! The ATO acknowledges your right to arrange your affairs to minimise tax. This “tax planning” is typically done just before the end of the financial year.

## What is tax planning?

There are two “types” of tax planning.

### Long Term Tax Planning

Ideally, you want a long-term strategy to structure your affairs that achieves an acceptable overall average rate of tax. This should account for long-term goals and cash flow needs. Paying tax is a major “cash outflow”. Tax is paid with after tax dollars. Paying too much can cripple a business, possibly destroying it. On the other hand, chasing tax deductions by spending money just to reduce tax can also destroy your cash flow and future viability. Everyone has heard that “cash is king” and it is!

Before June 30, begin preparing estimates of actual taxable incomes. See whether everything is on track as per your long-term strategy. Adjust planning to get the best outcome for this financial year ie “end of year tax planning”.

### End of financial year tax planning

So, what can you do before June 30 to optimise your taxation position?

**1. Instant asset write-off.** Plant and equipment purchased after April 2, 2019 costing less than \$30,000 (net of GST) can be instantly written off. This is now available for businesses with turnovers up to \$50 million. This

provision is in place until June 30, 2020. From January 29, 2019 until April 2, 2019, the instant asset write-off limit was \$25,000. It is limited to businesses with a turnover of less than \$10 million. Prior to January 29, 2019, assets needed to be less than \$20,000;

### 2. General SBE Pool write-off if less than \$30,000.

If you are a small business entity (turnover of less than \$10 million) the balance of your general depreciation pool can be written off in the year it reduces to less than \$30,000;

### 3. Depreciation pooling for small businesses.

Small businesses (turn-over of less than \$10 million) can pool depreciable items and take advantage of higher depreciation rates. They can claim 15pc write-off in the year an asset is added to the pool. The pool is written-off at 30pc per year. Furthermore, when disposing of an asset, proceeds can be used to reduce the pool instead of having to bring to account depreciation recouped as income;

### 4. Fencing and Water Facilities.

New fencing and water facilities are entitled to an immediate write-off. Be careful when purchasing second-hand water facilities;

### 5. Fodder Storage Facilities.

Fodder storage facilities paid for or first used after August 19, 2018 are immediately written-off. The “facility” must be “mainly” used to store fodder;

### 6. Farm Management Deposits.

Primary producers can make deposits into Farm Management Deposits (FMDs) and not pay any

tax on the deposits until withdrawn. FMDs are limited to \$800,000 per person at any one time. They can only be made if non-primary production income is less than \$100,000 in the year you make the deposit. When making FMDs consider if you are likely to have lower income years in the future to allow you to cash them in tax effectively. FMDs are a very tax effective risk management tool, but not for everyone. Beware of cashing them in without careful tax planning, particularly if operating through a trust. If planning to cash some in before June 30, be aware that many banks require 30 days notice. This will therefore not be an option for most by now;

### 7. Profit from the forced sale of livestock.

Livestock producers can defer profit from the forced sale of livestock because of the loss of pastures by reason of fire, flood or drought;

### 8. Converting Primary Production income into Non-Primary Production income.

Be careful when paying family members wages as you are effectively converting primary production income into non-primary production income. This may reduce their ability to utilise FMDs and other specific provisions for primary producers;

### 9. Superannuation.

Consider what you can contribute into superannuation. Is it an appropriate strategy for you? Individuals can contribute up to \$25,000 into superannuation tax effectively. Concessional contributions are taxed

at 15pc inside the superannuation fund. There are several other ways to make superannuation contributions. These do not gain tax deductions but can be a tax effective way to move wealth into super where the investment earnings will be taxed at 15pc or tax free, if in pension phase;

### 10. Trading Stock.

Consider if there are opportunities with what value you use for closing stock this year. You can choose between cost, market selling value and replacement value. If you have a significant tax loss, you could choose market selling value to lift the book value of your stock. This can be effective for succession planning;

### 11. Trust distribution minutes.

By law, trust distribution minutes must be prepared and signed before June 30. Detailed estimates and careful planning are essential. Check your trust deed to ensure you know who can be beneficiaries;

### 12. Distributing from trusts to “bucket companies”.

The company tax rate for most small businesses with turnover less than \$50 million is 27.5pc. This may apply to your beneficiary company. Advice should be sought regarding this;

### 13. Prepaying expenses.

I don’t believe in giving your money to someone before you have to! There is a very real risk that the supplier may go broke before you collect what you have paid. Be careful. However, sometimes prepaying upcoming expenses can be worthwhile;

**14. Prepaying Interest.**

As above!

**15. Financing equipment – lease verses chattel mortgages.** With the turnover test for small businesses now being \$10 million, depreciation rates are generous. Therefore, leasing may not be as tax effective as previously. Lease payments can, however, be prepaid for up to twelve months which may be a suitable strategy;

### 16. Income splitting.

Based on your taxation structures, consider what income splitting opportunities may be available;

### 17. Capital Gains Tax.

Have you made a capital gain? Small business capital gains tax concessions are generous. Seek advice regarding this;

**18. Donations.** This is the perfect time for tax deductible donations to registered deductible gift charities;

This list is not exhaustive. Seek professional advice regarding appropriate strategies for you.

## DISCLAIMER

Tony Olsen is a Director of Flor-Hanly, Commercial and Agribusiness Accountants. Tony can be contacted on 4963 4800. Information provided in this column is of a general nature. It does not take into account your personal financial circumstances. Tailored professional advice should be sought before acting on any of the information contained herein.

