

## THE BOTTOM LINE

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### (1) SMALL BUSINESS TAX BREAK

As part of the Budget, the Government has announced the extension of the small business tax break (also known as the investment allowance). The tax break was designed to encourage capital investment by Australian businesses.

Despite the Budget extension, time is running out for you to take advantage of the tax break.

It's important to get advice now about whether you should be taking advantage of this one-off incentive. The main features of the tax break are recapped below.

#### The deduction percentage

- Under the Budget announcement, small businesses will now be able to claim a bonus tax deduction of 50 per cent – up from 30 per cent previously - of the cost of eligible assets acquired between 13 December 2008 and 31 December 2009, and installed by 31 December 2010.
- All other businesses will be able to claim a bonus deduction of:
  - 30% on expenditure for eligible assets acquired between 13 December 2008 and 30 June 2009 and installed ready for use before 30 June 2010; and
  - 10% on expenditure for eligible assets acquired between 13 December 2008 and 30 June 2009 or 1 July 2009 and 31 December 2009 and installed ready for use before 31 December 2010.

#### Spending thresholds

- There are different eligibility spending thresholds for small businesses (one that has a turnover of \$2 million per year or less) and other businesses.
- Small businesses will only need to spend a minimum of \$1,000 per eligible asset in order to qualify for this special deduction. Other businesses will be entitled to the same deductions if they spend a minimum of \$10,000 per eligible asset.
- Assets eligible for this allowance are new tangible depreciating assets and new expenditure on existing assets used in carrying on your business and for which you can claim a capital allowance deduction.
- This bonus deduction is on top of the usual capital allowance (depreciation) deduction that you can claim for eligible assets.

#### TIP

To claim the tax break the asset must be a “new” asset not only to the person claiming the deduction but generally. Therefore, the purchase of a demonstration model car may not qualify. If in doubt, seek advice!

#### Disclaimer

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The following table summaries the key dates relating to the different rates.

Business entity	Investment commitment time (inclusive)	Date of first use or installed Ready for use (inclusive)	Rate
Small business	13 December 2008 to 31 December 2009	By 31 December 2010	50%
Other business	13 December 2008 to 30 June 2009	By 30 June 2010	30%
	1 July 2009 to 31 December 2009	By 31 December 2010	10%
	13 December 2008 to 30 June 2009	1 July 2010 to 31 December 2010	10%

## (2) FEDERAL BUDGET ROUND-UP

In addition to the key changes outlined above, the following changes were also announced as part of the Budget.

### Superannuation – concessional contributions caps

A super contributions cap is the maximum amount you can contribute to super without being liable to excess contributions tax.

Concessional contributions are sometimes known as 'before-tax' contributions and include:

- contributions made by an employer for an employee, including contributions made under a salary sacrifice arrangement; and
- personal contributions that are claimed as a tax deduction (where the person is eligible to claim).

The Government has announced that it will reduce the concessional contributions cap to \$25,000 per annum (indexed) reduced from \$50,000, with effect from the 2009-10 financial year.

The transitional concessional contributions cap (applicable to individuals aged 50 and over for the 2009-10, 2010-11 and 2011-12 financial years) will be reduced to \$50,000 per annum from \$100,000.

#### TIP

Top up your super before these changes kick in on 1 July 2009.

### Pension Minimum Drawdowns Continued

The 50% reduction in minimum pension drawdown requirements introduced from 12 March 2009 will continue for the entire 2009/10 financial year.

### Australians working overseas

The Government has announced its intention to remove the income tax exemption for foreign employment income, with effect from 1 July 2009. A limited exemption will remain for certain specified aid, charity and government workers.

Currently, foreign employment income earned by Australians working overseas for a continuous period of 91 days or more is exempt from income tax.

Australians working overseas will need to consider the following issues:

- are they still Australian "tax" residents;
- will their foreign income now be taxable in Australia;
- will they be entitled to foreign tax offsets for any tax paid overseas; and
- will there be any fringe benefits tax or PAYG implications?

#### TIP

If you are an Australian resident working overseas, you should seek advice regarding whether these changes will affect you!

### Private Health Insurance Rebate

From **1 July 2010**, the Government intends to introduce three new tiers for the private health insurance rebate (**PHI rebate**). The following table shows the projected PHI rebate and Medicare levy surcharge.

	Tier 1	Tier 2	Tier 3
<b>Singles</b>	<b>\$75,001 - \$90,000</b>	<b>\$90,001 - \$120,000</b>	<b>\$120,001+</b>
<b>Families</b>	<b>\$150,001 - \$180,000</b>	<b>\$180,001 - \$240,000</b>	<b>\$240,001+</b>
Medicare levy surcharge	1.00%	1.25%	1.50%
PHI rebate			
< 65 years	20%	10%	nil
65 to 69 years	25%	15%	nil
≥ 70 years	30%	20%	nil

## Tightening access to non commercial business losses

The Government has announced that it will tighten the application of the rules on the use of non commercial losses to prevent high income individuals from offsetting excess deductions from non commercial business activities against salary and other income.

The new rules will only apply to taxpayers with an adjusted taxable income of over \$250,000.

### A QUESTION TO ASK...

Do you have losses from a non commercial business activity (e.g. a hobby farm)? If so, these amendments could affect you!

## Employee Share Schemes

The Government has announced its intention to amend the employee share scheme provisions. The new measures, if implemented, will apply to shares and options acquired after 12 May 2009.

Under the proposed changes, any discounts provided on shares or rights will be taxable in the income year the shares or rights are acquired (i.e. the option for tax deferral will be removed).

Following its announcement, the Government has agreed to further consultation before amending these rules. This consultation process is currently underway.

### TIP

If you are going to receive shares or options under an employee share scheme, you should seek advice regarding the possible changes to the employee share scheme rules.

## (3) PLANNING FOR YOUR TAX RETURN

### Getting ready for your tax return

Before looking at some key tax-time issues for you to consider when preparing your 2009 return, it's important to recap briefly on some important basics for your tax return preparation.

#### Tax planning basics

Tax planning is something you should be looking at regularly throughout the year. The reality, however, is that most of us tend only to look at it about now. Whilst there is no magic formula for the 'best' tax planning strategies, good planning practice aims to:

**cover the basics** - such as including all your assessable income and maximising all the tax deductions to which you are entitled; and

**look at opportunities to improve your tax situation** – this depends on your particular circumstances but may include things like ensuring any capital gains are offset with any available capital losses or maximising your superannuation contributions for the year.

### CAUTION

Be wary – you don't want to breach the general anti-avoidance provisions! For example, "wash" arrangements (ie the sale and purchase of the same assets, or substantially the same asset, within a short period of time) which are designed to give rise to losses to offset gains or other assessable income may fall foul of the general anti-avoidance provisions.

### Keeping proper records

It goes without saying that this is essential and is where a lot of problems start if not done properly. To get motivated, some people find it helpful to approach record keeping as if your business could be audited by the ATO at any time. Here are some tips to help you:

- generally you should keep your records for five years.

### WARNING

Some records need to be kept for longer than 5 years.

For example, if a capital asset is sold – records should be kept for 5 years after the sale.

Similarly, if depreciation deductions are being claimed in respect of an asset, records should be kept until 5 years after the last claim for depreciation deductions.

- you will need records like bank statements, cheque butts, deposit slips, cashbooks, and accounting records (e.g. your general ledger, trial balance, and preliminary profit and loss statement and balance sheet).
- watch out for some types of expenses that need particular records (e.g., motor vehicle log books, diaries for travel expenses).

### TIP

It makes things a lot easier if you can keep an up-to-date business assets register that lists all plant, equipment, furniture, fittings, other assets, including all items bought, sold & disposed of during the year.

## Key tax-time issues

### Maximise your deductions now

One of the more popular strategies to legitimately maximise your deductions is by prepaying some items of your business expenditure before 30 June.

Before you prepay any business expenses, you should be aware that there are some rules that may affect your entitlement to claim a deduction for prepaid business expenses (e.g., you may have to apportion your deduction over more than one tax year).

#### COMMON PREPAYMENTS

Commonly prepaid business items include rent, lease payments, interest, audit and accounting fees, repairs and maintenance, and business related subscriptions.

### Check your bad debts now

This is a real issue in the current economic climate and one that the ATO always takes a close look at.

If your business has a debt that has already been brought to account as assessable income and you can't collect that debt, you want to make sure you don't end up paying tax on income you can't collect.

The way you do this is to claim a deduction for this debt, where such a debt is 'bad' and is written off in your accounts before 30 June.

#### TIP

A debt is likely to be considered as 'bad' when you have made an effort to collect it, there is little likelihood that you will ever be successful in collecting it and you have abandoned any debt recovery action.

### Keep an eye on your business losses

Has your business received income from more than one activity during the year and one (or more) of these activities made a loss?

This is another area that increases in importance in an economic downturn.

You may be able to reduce your overall taxable income by offsetting this loss (or losses) against profits from your other business activities during this year.

You should be aware that if you carry on business alone or in partnership, there are some special 'commerciality tests' that your business will need to satisfy so you can do this.

#### TIP

If you have started up a new business venture during the year which has made a loss, not uncommon in the early stages of a new venture, you will need to find out whether these rules let you claim this loss against your other income.

### Watch out for GST traps

It's not hard to make a mistake keeping track of and working out your business' GST reporting obligations, payments and refunds.

Here are some common traps to avoid.

- Be careful not to understate the total value of goods and services supplied.
- Make sure you are not overstating your entitlement to input tax credits.
- Make sure you report supplies and purchases in the correct period.
- Classify your supplies correctly – be particularly careful if you think a supply is GST-free.

### Value your trading stock at 30 June

You'll need to value your closing stock on hand and work-in-progress at 30 June. Resist the temptation to guess – this is a common mistake that businesses make!

When you value your trading stock, clearly identify which valuation method you use – cost, replacement, market value (or less if the stock is obsolete).

### Issue employees' payment summaries

As a general rule, you are required to give your employees their payment summaries ('group certificates' in the old language) on or before 14 July 2009.

#### TIP

Where the total taxable value of reportable fringe benefits for an employee is more than \$2,000 for the current FBT year, you will have to disclose this value (grossed-up) on the employee's payment summary.



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