MOORE

YEAR END TAX PLANNING FOR BUSINESSES

JUNE 2021

Several changes have been legislated over the last year which businesses need to be aware of whilst doing their end of year tax planning. We have listed some of these changes below.

Company tax cuts - 2022 and beyond

The following table summarises the corporate tax rate going forward:

Income year	Aggregated turnover threshold	Tax rate for base rate entities under the threshold	Tax rate for all other companies
2020-2021	$50m	26.00%	30.00%
2021-2022 onwards	$50m	25.00%	30.00%

Changes to depreciation

In order to claim depreciation during a particular year, it is important that the asset is installed ready to use during the financial year. The temporary full expensing, instant asset write off and accelerated depreciation provisions have added layers of complexity for businesses wanting to claim depreciation expenses. There are different eligibility criteria, dates and thresholds that may apply to each of these provisions, and you should contact us to discuss these in further detail to see how it affects your business.

- **Instant asset write-off**: Businesses with an aggregated turnover of less than $500 million can claim the full cost of eligible assets below the instant asset write-off (IAWO) threshold amount of $150,000. The assets must be purchased by 31 December 2020 and installed ready to use by 30 June 2021. The IAWO is compulsory and applies to all businesses unless they are a small business entity with an aggregated turnover of less than $10 million and do not use the simplified depreciation rules.

- **Accelerated depreciation**: Businesses with an aggregated turnover of less than $500 million will be entitled to the following deductions on eligible assets purchased and first used (or installed ready for use) between 12 March 2020 and 30 June 2021:

  a) Immediate deduction for 50% of the cost of the asset in the year purchased; and

  b) The remaining 50% of the cost of the asset would be claimed under ordinary Division 40 rules.

  Small businesses who use the simplified depreciating provisions can claim 57.5% (up from 15%) of the value of the asset in the year purchased.

  These provisions are generally not compulsory, and most businesses can opt in and opt out on an asset by asset basis. However, these provisions are compulsory for small business entities with an aggregated turnover of less than $10 million which use the simplified depreciation provisions.

- **Temporary full expensing provisions**: Business with an aggregated turnover of less than $5 billion can claim the full cost of an eligible depreciating asset purchased between 6 October 2020 and 30 June 2022. These provisions are generally not compulsory, and most businesses can opt in and opt out on an asset by asset basis. Furthermore, businesses with an aggregated turnover of more than $5 billion may have access to these provisions under an alternate test.

  However, these provisions are compulsory for small business entities with an aggregated turnover of less than $10 million which use the simplified depreciation provisions. In addition, these entities must claim the full balance of their small business pool during the 2020-21 income year.

  In the 2021-22 Federal Budget, it was announced that the TFE provisions will be extended to 30 June 2023.

Loss carry-back provision for companies

Companies which carry on a business and have an aggregated turnover of less than $5 billion are eligible for the loss carry back provisions. The loss carry back rules are optional and broadly give companies an option to carry back their tax losses to an earlier year and claim a refund for tax paid in a previous income year.

Losses incurred in the 2019/20, 2020/21 and 2021/22 income years can be carried back to the 2018/19 and later income years. The refundable amount of the tax offset is restricted to the lesser of:

- the tax paid in the earlier year
- the company's franking account balance at the end of the current income year

Note, in the 2021-22 Federal Budget, it was announced that losses incurred in 2022/23 will also be eligible for the carry back.

Review loans to shareholders and associates (Division 7A loans)

The Government had previously announced its intention to introduce changes to the operation of Division 7A. However, at this stage, no draft legislation has been released.

Shareholder loans from companies need to be properly documented and put on a commercial footing in line with the Division 7A tax legislation. In addition to documenting such loans, it is important to ensure interest rates are correctly applied and the minimum repayments are being made to ensure no deemed dividends arise. The ATO continues to undertake audits to ensure payments made by private companies are correctly accounted for and company loans are not used to distribute tax-free profits.

In addition to Division 7A loans, you should also review any unpaid present entitlements (UPEs) where trust distributions remain unpaid at the end of the year. We recommend speaking to one of our advisors who can guide you through the complexities of the Division 7A provisions.

Trust resolutions

Trustees of discretionary and family trusts must make valid distribution resolutions before 30 June to effectively distribute trust income to eligible beneficiaries. The resolution must be made in accordance with the Trust Deed and we will be in touch shortly to ensure you comply with your trustee obligations. If you have not made a valid distribution by 30 June 2021, the Trustee may be liable to pay tax on the Trust's taxable income at the highest marginal tax rate.

Franking and dividends

If you are planning on paying any dividends in your company prior to year-end, it is important to ensure that you have met the documentation/notification requirements. In addition, ensure your franking account is up to date as many businesses would have claimed refunds of their PAYG income tax instalments over the last few COVID-19 affected months and it is imperative that you have sufficient franking credits to avoid paying franking deficits tax at a later date.

Please also note the change in corporate tax rates for base rates entities which will have an impact on a company's franking rate if dividends are paid after 1 July 2021.

Superannuation Guarantee rate - from July 2021

The superannuation guarantee rate will rise from 9.5% to 10% from 1 July 2021. The rate will subsequently rise by 0.5% each year until it reaches 12% by the 2025-26 income year.

Review your employment contracts and ascertain whether the employee's package is inclusive of or excluding superannuation guarantee. For example, if an employee's salary is $90,000 inclusive of superannuation, the following would be the impact of the rate increase on their pay going forward:

Income year	SG rate	Gross	Superannuation Guarantee	Pay (before tax)
2020-2021	9.50%	$90,000	$7,808	$82,192
2021-2022	10%	$90,000	$8,182	$81,818

Alternatively, if an employee's salary is $90,000 exclusive of superannuation, the following would be the impact of the rate increase on their pay going forward:

Income year	SG rate	Gross	Superannuation Guarantee	Pay (before tax)
2020-2021	9.50%	$98,550	$8,550	$90,000
2021-2022	10%	$99,000	$9,000	$90,000

PAYG withholding obligations and deductibility of payments to workers (including directors and associates)

From 1 July 2019, you must comply with PAYG reporting and withholding obligations in order to claim a tax deduction for payments you make to workers (including employees and contractors). If you fail to withhold PAYG from your workers' payments or do not report the amounts to the ATO prior to an audit/review, they may be considered non-compliant payments and treated as non-deductible for income tax purposes. Particularly, care must be taken when paying associates (e.g. business owners or their family members) and ensure you meet your withholding and reporting obligations.

Reporting - Single Touch Payroll (STP)

Small employers (19 or fewer payees) are currently exempt from reporting amounts paid to closely held payees (associates of the entity e.g. shareholders, directors etc.) through STP until 30 June 2021. From 1 July 2021, amounts paid to closely held payees will need to be reported through STP.

As part of your STP requirements, employers must make a finalisation declaration for your employees by 14 July 2021 unless an exemption/deferral applies.

The due date for the finalisation declaration for closely held employees is as follows:

- For employers with 20 or more employees, the due date for closely held payees is 30 September 2021.
- For employers with 19 or fewer employees who only have closely held payees, the due date for end-of-year STP finalisation will be the payee's income tax return due date.

Reporting - Taxable Payment Annual Report (TPAR)

If you are in one of the following industries, you may need to lodge a TPAR by 28 August 2021 containing information in relation to payments made to contractors:

- Building and construction
- Cleaning services
- Courier services
- Road freight services
- Information technology services
- Security, investigation, or surveillance services
- Mixed services (provides one or more of the services listed above)

Reporting - Payment Times Reporting

The new Payment Times Reporting Scheme (PTRS) applies from 1 January 2021 and requires certain entities (including but not limited to) companies to publicly report on their payment terms and practices for their small business suppliers. This is achieved primarily through the imposition of a bi-annual reporting requirement whereby effected entities must provide details of their payment terms for small business. This information is then published on a public register which can then be accessed by any interested party.

Companies that carry on an enterprise may have a compliance obligation for the purposes of the PTRS if any of the following apply:

1. The total income for the entity for the most recent income year for the entity was more than $100 million.
2. If the entity is a controlling corporation – the combined total income for all members of the controlling corporation's group for the most recent income year for the controlling corporation was more than $100 million.
3. If the entity is a member of the group of a controlling corporation to which subparagraph (2) applies – the total income for the entity for the most recent income year for the entity was at least $10 million.

The first report is due by 30 September 2021.

Tax Planning checklist - for Business

Item	Enhance your tax deductions
Accrued expenses	Ensure you accrue expenses where you have a present existing liability to pay the expense irrespective of the fact that you may receive the invoice or make the payment after year end. Example: Accrued wages - for instance, if you have a monthly pay cycle ending on 15 June, you can accrue the costs of your payroll from 16 June to 30 June and claim the wage cost as a tax deduction in the 2021 year itself.
Bad debts	Review your debtors listing and determine whether any debts can be written off. A written record should be kept evidencing the decision to write off the debt from the accounts.
Bonuses	If you have not paid your bonuses by 30 June, you may still be able to claim a deduction provided you have an obligation to pay this. To substantiate this, ensure the amount is quantifiable and approved (via minutes) and the staff are notified of the bonus.
Deferring income	The ability of a business to defer income will depend on each business, cash flows and the type of income derived. However, with the corporate tax rate reducing to 25% (from 26%) for certain companies (aggregated turnover of less than $50 million) in the 2022 financial year, it may be appropriate to defer income until the 2022 financial year where possible.
Plant and equipment	Consider the impact of the instant asset write off, accelerated depreciation and temporary full expensing provisions on depreciating assets purchased during the 2020-21 income year.
Plant and equipment - obsolete	Review your asset register and write off any assets that have been disposed or are no longer in use.
Prepayments - immediate deductions	If you are a small or medium business (aggregated turnover of less than $50 million), you may be entitled to an immediate deduction for certain prepaid expenses where the goods or services will be provided within 12 months from the date of expenditure. Examples of items that may be deductible under the 12-month rule include subscriptions and prepayments of interest on a loan used for income producing purposes.
Simplified trading stock rules	If you are a small business (aggregated turnover of less than $50 million), the simplified trading stock rules may apply. Broadly, you do not have to account for changes in trading stock for tax purposes where the difference between the value of the original opening stock and a reasonable estimate of the closing stock is $5,000 or less.
Stock - obsolete	Review your stock on hand and identify any obsolete stock. You should conduct a detailed physical stock take of all stock on 30 June. Retain your detailed stock sheets as part of your taxation records.
Superannuation - June 2021 quarter	If you would like to claim a deduction for your superannuation guarantee accrued during the June 2021 quarter, ensure it is paid by 30 June 2021(subject to cash flow). The amount should be received into the employees' fund by 30 June 2021 so you may have to pay it earlier to allow for bank processing times.

Tax Planning checklist - for Business

Item	Preserve your tax deductions
International related party dealings	Ensure your transfer pricing documentation is up to date.
Salary and wages (incl. director fees)	Ensure PAYG withholding and reporting obligations have been met to prevent loss of deduction for non-compliant payments from 1 July 2019.
Superannuation - current year	Ensure paid by the due dates to maintain your income tax deduction. If any amounts have been paid late, ensure you have prepared and lodged the necessary superannuation guarantee charge forms with the ATO to minimise interest charges and penalties.

Item	Comply with ATO Year-end reporting requirements
Single Touch Payroll	Ensure year end payroll procedures have been completed and make a finalisation declaration. You must make a finalisation declaration for your employees by 14 July 2021 for employees that are not closely held payees.
Taxable Payment Annual Reports (TPAR)	If you are in these following industries, you will need to prepare a TPAR: • Building and construction • Cleaning services • Courier services • Road freight services • Information technology services • Security, investigation or surveillance services • Mixed services (provides one or more of the services listed above) Lodge the TPAR (if necessary) with the ATO by 28 August 2021.

Item	Comply with other income tax/ASIC requirements
Loans	Ensure your loans to and from companies and trusts comply with the current Division 7A provisions and ensure you have made the minimum repayments during the year for any complying Division 7A loans.
Dividends	Ensure you have reviewed your franking account and record any dividends paid to shareholders in your accounting systems. Ensure you have met your documentation / notification requirements.
Trust resolutions	In general and subject to the terms of the Trust Deed, a discretionary trust needs to resolve how to distribute its income in writing before 30 June. We will send out a draft resolution for your consideration soon to ensure you have considered the various requirements under Trust law.

ABOUT MOORE AUSTRALIA

At Moore Australia, it's not about us. It's all about you. Whether it's for your business, partnership, trust, or individual tax return, our experienced team at Moore Australia can assist you and your business with a range of personalised assurance, accounting, tax, and advisory services.

Our purpose is to help people thrive – our clients, our team, and the communities that we live and work in. We understand that people are the nature of our business and as such, like to provide a friendly and professional environment for both our clients and team members.

Our Moore Australia network of independent firms also enables us to share expert knowledge, and best practice so you are able to receive the best advice and highest quality of service wherever you choose to do business in Australia.

Looking beyond national borders, we also support your international ambitions through the Moore Global network of professional firms.

For more information on how our services and sector experts can help your business thrive, just get in touch.

CONTACT US

Find your nearest member firm at
www.moore-australia.com.au

Or email:
ma@moore-australia.com.au

MOORE

www.moore-australia.com.au