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HELPING YOU THRIVE IN A CHANGING WORLD

Year End Tax Planning for Businesses

There is no "one size fits all" approach to tax planning and whilst we have highlighted some of the major changes introduced this year, we recommend you get in touch with one of our advisors who can provide you with specific advice relevant to your circumstances.

We have discussed some of the changes affecting businesses below but as a starting point, it is important to consider whether you carry on a business. In general, if your activities are passive in nature (e.g. owning a rental property), it is unlikely you are carrying on a business and therefore, you will not be eligible for a number of the concessions listed below.

Increased threshold for instant asset write-off

The instant asset write-off (IAWO) threshold amount has been increased to $150,000 (up from $30,000) for businesses with an aggregated (group-wide) turnover of less than $500 million (up from $50 million) until 30 June 2020. The following table summarises the IAWO threshold depending on the group-wide turnover for the 2019-20 financial year:

Date first used (or installed ready for use)	Asset cost below	Business turnover below
1/07/19 - 12/03/20	30,000	$50 million
12/03/20 - 30/06/20	150,000	$500 million

Note : The Government has announced that it will extend the IAWO to 31 December 2020.

Small businesses who wish to access the IAWO must use the small business simplified depreciation rules (i.e. general pool). If your general pool balance is less than $150,000 at the end of the 2020 year, you can claim a deduction for the entire pool balance.

Ordering an asset or paying for it prior to 30 June 2020 is not enough and you must also ensure the asset is delivered and installed ready for use by 30 June 2020 or you may lose the instant deduction.

Accelerated depreciation

Businesses with a group-wide 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 remainder would be claimed under ordinary Division 40 rules [i.e. the cost of the asset on which depreciation is calculated is reduced by the 50% amount claimed at (a)]

For small businesses who use a general pool, they can claim 57.5% (up from 15%) of the value of the equipment in the year purchased.

JobKeeper Program

Eligible employers whose turnover has been affected by COVID-19 can apply to the Australian Taxation Office (ATO) to access a subsidy from the Government of $1,500 per fortnight for each eligible employee for fortnights commencing on 30 March 2020 and ending on or before 27 September 2020. If your business' turnover has declined from last year by 30% (if your group-wide turnover is less than $1 billion) or by 50% (if your group-wide turnover is more than $1 billion), you may be eligible to enrol in the program. Note, there are special rules to calculate the decline and we recommend you contact us immediately to check your eligibility and maximise your claims. JobKeeper payments are assessable income and subject to tax.

Cashflow Boost

The ATO will provide a cash flow boost (CFB) in two tranches to eligible businesses (group wide turnover less than $50 million) based on the PAYG withheld from payments to employees. The final instalment of the first tranche will be paid in the June 2020 activity statement. If you have received or will receive the first tranche CFB payment, you will receive the same amount in the second tranche during the July - October period paid in equal proportions across your business activity statements. The CFB is not considered assessable income and is tax-free.

Superannuation Amnesty

The superannuation amnesty introduced in March 2020 ends on 7 September 2020. Employers will be able to voluntarily disclose any amounts of unpaid or late superannuation guarantee payments. Late payments are generally not tax deductible but as part of the Amnesty, employers may be able to claim a tax deduction for any late superannuation payments, provided they relate to quarters beginning from 1 March 1992 to 1 January 2018 and are paid by the due date of 7 September 2020. In addition to the tax deduction, there are reduced penalties and administrative charges.

The Amnesty, however, is not available to quarters beginning 1 April 2018 onwards. For quarters beginning from 1 March 1992 to 1 January 2018, the ATO's powers to remit Part 7 penalties after the amnesty period ends will be reduced and the ATO will not be able to remit the penalty below 100% once the amnesty period ends on 7 September 2020. The purpose of introducing this change was to encourage employers to use the Amnesty as any non-compliance which is discovered later will be penalised heavily.

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. To make matters worse, there may be a mismatch where the employer may be denied a deduction but the income may still be treated as assessable income to the employee.

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 which were meant to apply from 1 July 2020. 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. This is a highly complex area of tax and we recommend speaking to us about this.

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 2020, 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.

Reporting – Single Touch Payroll (STP)

As part of your STP requirements, you must make a finalisation declaration for your employees by the following dates:

- 14 July 2020 if you have 20 employees or more; or
- 31 July 2020 if you have 19 employees or less.

If you have made a finalisation declaration by the due date, you will not be required to provide your employees with payment summaries.

However, you will need to provide your employees with payment summaries for any payments not reported through STP. Similarly, you will need to lodge the payment summary annual report with the ATO if payments were not reported through STP.

Reporting – Taxable Payment Annual Report (TPAR)

If you are in one of the following industries, you may need to lodge a TPAR by 28th August 2020 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)

Company tax cuts - 2021 and beyond

The following company tax cuts have been legislated over the next few years:

Year	Base rate entities [Turnover below $50 million]	Other Companies
2019 – 20	27.50%	30.00%
2020 – 21	26.00%	30.00%
2021 – 22	25.00%	30.00%

TAX PLANNING CHECKLIST – FOR BUSINESSES

Contained below is a checklist of the various issues your business should consider prior to year-end. If you would like any assistance, feel free to contact us.

<table>
<tr><th>Item</th><th>Tax Planning - To enhance your tax deductions</th></tr>
<tr><td>Accrued expenses</td><td>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 2020 year itself.</td></tr>
<tr><td>Bad debts</td><td>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.</td></tr>
<tr><td>Bonuses</td><td>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.</td></tr>
<tr><td>Deferring income</td><td>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 26% (from 27.5%) for certain companies (group-wide turnover of less than $50 million) in the 2021 financial year, it may be appropriate to defer income until the 2021 financial year where possible.</td></tr>
<tr><td>Plant and Equipment - increased instant asset write off (IAWO) threshold</td><td>
<table>
<tr><th>Date asset first used (or installed ready for use)</th><th>Small Business [T/O less than $10 million]</th><th>Medium Business [T/O $10m - $50 million]</th><th>Large Business [T/O $50 million - $500 million]</th></tr>
<tr><td>1 July 2019 - 12 March 2020</td><td>30,000</td><td>30,000</td><td>n/a</td></tr>
<tr><td>12 March 2020 - 30 June 2020</td><td>150,000</td><td>150,000</td><td>150,000</td></tr>
<tr><td>After 1 July 2020</td><td>1,000</td><td>n/a</td><td>n/a</td></tr>
</table>
Note: Small businesses who wish to use the IAWO must use the small business simplified depreciation rules (i.e. small business pools).

Important to remember that ordering an asset or paying for it prior to 30 June is not enough and you must also ensure the asset is delivered and installed ready for use by 30 June 2020 or you may lose the instant deduction.</td></tr>
</table>

Note : The Government has announced that it will extend the IAWO to 31 December 2020.

Plant and Equipment - Accelerated depreciation	Businesses with a group-wide turnover of less than $500 million will be entitled to accelerated depreciation on eligible assets purchased and first used (or installed ready for use) between 12 March 2020 and 30 June 2021. Accelerated depreciation means: a) Immediate deduction 50% of the cost of the asset; and b) The remainder would be claimed under ordinary depreciation rules [i.e. the cost of the asset on which depreciation is calculated is reduced by the 50% amount claimed at (a)]. Note, if you use the Small Business General Pool for assets costing above the instant asset write off thresholds (listed above), you can claim 57.5% during the year the asset is purchased and the asset would continue to be depreciated at 30% in the following years.
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 business (group-wide turnover of less than $10 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 (group-wide turnover of less than $10 million), the simplified trading stock rules may apply so that the you do not have to account for changes in trading stock or complete a stock take 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 Guarantee Amnesty	You may be eligible to claim a tax deduction for unpaid/late superannuation guarantee payments if you make the necessary disclosures to the ATO by 7 September 2020.
Superannuation - June 2020 quarter	If you would like to claim a deduction for your superannuation guarantee accrued during the June 2020 quarter, ensure it is paid by 30 June 2020 (subject to cash flow). The amount should be received into the employees' fund by 30 June 2020 so you may have to pay it earlier to allow for bank processing times.

Item	Tax Planning - To 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 or you may lose a 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	Tax Planning - To 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 the following dates: • 14 July 2020 if you have 20 employees or more; or • 31 July 2020 if you have 19 employees or less.
Payment Summaries	If you have made a finalisation declaration in STP, you are not required to prepare payment summaries for your employees. If you are not exempt from providing payment summaries (i.e. you did not make a finalisation declaration through STP), you will need to provide your employees with payment summaries by 14 July 2020. In addition, you will need to lodge the payment summary annual report with the ATO by 14 August 2020 (note, concessions apply in limited circumstances).
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 2020.
Item	**Tax Planning - To 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	A 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.
Item	**Tax Planning - COVID-19 subsidies/assistance**
Cash flow boost (CFB)	If you have received the CFB, ensure the amount has been included as “income” in your P&L.
JobKeeper	If you have received JobKeeper payments, ensure the amount has been included as “income” in your P&L.

MOORE AUSTRALIA

At Moore Australia, it's not about us. It's all about you. When it comes to providing personalised and commercially astute audit, accounting, tax and business advisory services, it simply can't be anything else.

Our focus is about understanding you, your business, your needs, your challenges and, most importantly, how you define success. At Moore Australia, we're here to help you thrive in a changing world. We are mid-market specialists, so we truly understand your operating environment. What's more, all of our people are long-standing members of their local business communities, and when we work with you, we immerse ourselves in your world. We treat your business like it's ours and we give you all the time you need when you need it. We share our skills, expertise and knowledge, examining every detail and leaving nothing unnoticed.

So when you think about Moore Australia, think of us delivering the personal service and local market knowledge that you want, backed by a leading national and international network of expertise, knowledge and advice that you need to succeed. It's that simple.

CONTACT US

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

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

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www.moore-australia.com.au