# CPA Australia's tax tips for year ended 30 June 2012

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# CPA Australia's tax tips for year ended 30 June 2012

These year-end tax tips are designed to provide employees, investors and businesses with a headline list of key issues that they should consider in preparing their income tax returns for the year ended 30 June 2012. The list is not exhaustive and taxpayers should always speak to a CPA registered tax agent about their specific circumstances.

## Employees and investors

### 1. Defer income and accelerate deductions

The personal tax rates for low- and middle-income earners are going to drop for the 2012-13 tax year, which will enable these earners to save tax by either deferring assessable income or bringing forward deductions provided action is taken by 30 June 2012. Care should be taken in accelerating deductions as the prepayment rules may limit the deductions claimed.

These reduced tax rates will arise because the tax-free threshold will be more than tripled from $6000 to $18,200 for the 2012-13 tax year. However, the benefits of the increased tax-free threshold will be progressively reduced by increasing the current 15 per cent marginal tax rate to 19 per cent, and the 30 per cent marginal tax rate to 32.5 per cent from the 2012-13 tax year. A comparison of the marginal tax rates (excluding the Medicare Levy and Flood Levy) for the 2011-12 and 2012-13 tax years is set out below. When combined with changes to the low income tax offset it is anticipated that individuals will save up to $600 tax when they earn less than $20,000, $303 tax when they earn less than $65,000 and $3 tax when earning in excess of $80,000.

| **Current tax thresholds** | |
|---|---|
| Income range ($) | Tax rate (%) |
| 0 – 6,000 | Nil |
| 6,001 – 37,000 | 15 |
| 37,001 – 80,000 | 30 |
| 80,001 – 180,000 | 37 |
| 180,001+ | 45 |
| **New tax thresholds from 1 July 2012** | |
| Income range ($) | Tax rate (%) |
| 0 – 18,200 | Nil |
| 18,201 – 37,000 | 19 |
| 37,001 – 80,000 | 32.5 |
| 80,001 – 180,000 | 37 |
| 180,001+ | 45 |

### 2. Claim all work-related deductions

Claiming all your work-related deduction entitlements may save considerable tax. In doing so check whether you have all the necessary receipts or credit card statements. Typical work-related expenses which are allowable include uniforms, employment-related telephone, mobile and internet costs, subscriptions, home office expenses and union fees.

Where you don't have the necessary receipts on hand you can still claim up to $300 of work-related expenses provided the claims relate to outgoings you necessarily incurred in doing your job. A deduction for laundry costs is allowable where the relevant clothing is protective clothing, a compulsory uniform, an approved non-compulsory uniform or certain occupation-specific clothing. Moreover, laundry claims of up to $150 do not have to be substantiated even if your total income tax deductions exceed $300.

## 3. Identify eligible self-education expenses

Self-education expenses can be claimed provided the study is directly related to either maintaining or improving your current occupational skills or it is likely to increase your income from your current employment. By contrast if the study is designed to enable you to obtain new qualifications in a different field then the expenses incurred are not allowable. Typical self-education expenses include, among others, course fees, textbooks, stationery, student union fees and the depreciation of assets such as computers and printers. However, any Higher Education Loan Program (HELP) repayments are not deductible. You must also disallow $250 of self-education expenses which can include non-deductible amounts such as child care costs.

## 4. Deduct home office expenses

When part of your home has been set aside primarily or exclusively for the purpose of doing work from home costs such as heating, cooling and lighting and depreciating your office equipment or professional library may be allowable. To claim the deduction you must have typically kept a diary for at least four weeks of the hours you worked at home. This amount is then used to work out your total hours worked for the year and a deduction claimed at a current rate of $0.34 cents per hour. However, no deduction is available for occupancy expenses such as mortgage interest, rent, and insurance and rates unless you conduct a business from your home.

## 5. Maximise motor vehicle deductions

Where you have used your motor vehicle for work-related travel, and your claim for kilometres travelled for the year does not exceed 5000 km, you can claim a deduction for your car expenses on a cents per kilometre basis to the extent you have used your car for work. The allowable rate for such claims changes annually so you may need to obtain this year's rate from the Australian Taxation Office (ATO) website at www.ato.gov.au. Any such work-related travel claims must be based on reasonable estimates. Conversely, where business travel exceeds 5000 km, it may be possible to claim one third of actual car expenses or 12 per cent of the original value of the vehicle without a logbook.

Alternatively, if you have used your car for a significant amount of work-related travel then you may be able to claim a deduction for your total car running expenses to the extent you have used it for work. However, such claims are only available where you have the required logbook, odometer readings and receipts.

Work-related travel includes travel between two places of work or employment, or travel to shifting places of employment. It may also be available where you have to carry bulky tools or equipment with you to work.

## 6. Deduct any eligible depreciation deductions

Where an individual bears the cost of acquiring specific tools or equipment they may be depreciable under the capital allowance regime even if that person is not carrying on a business. Some items can also be claimed in full if they cost $300 or less, and are mainly used to gain assessable income other than business income. Such assets include tools, calculators, briefcases, computer equipment and technical books purchased by an employee, or minor items of plant purchased by a landlord.

## 7. List your rental property deductions

Landlords can claim deductions for a range of expenses such as advertising, bank charges, body corporate fees, cleaning, council rates, electricity and gas, gardening, insurance, loan interest, land tax, lease preparation expenses, legal costs, pest control, postage and stationery, property agent fees and commissions, repairs, secretarial and bookkeeping fees, telephone charges and water rates. You may also be able to write off the cost of certain buildings, depreciating assets and borrowing costs over time.

## 8. Claim relevant non-work related deductions

Fees paid to a registered tax agent to prepare your return or to manage your tax affairs are allowable in the year the fee is paid, as are ongoing management fees paid to a financial planner. Also, bank charges and any interest payments on funds used to acquire shares and other income-producing investments are generally deductible. Donations to charities and other gift deductible recipients should also be claimed.

## 9. Optimise your tax offsets

Tax offsets directly reduce your tax payable and can add up to a sizeable amount, so it pays to know all the offsets you are entitled to. Eligibility for offsets will generally depend on your income level, family circumstances and other relevant conditions associated with particular offsets or rebates.

Common tax offsets potentially available in the 2011-12 tax year include, among others, the dependent spouse rebate, low-income tax offset, mature-aged worker offset, senior Australian tax offset and the offset for superannuation contributions made on behalf of a low income spouse.

You may also wish to consult your CPA registered tax agent on whether you should prepay your private health insurance premiums by 30 June 2012 in order to maximise your entitlement to the private health insurance offset.

A 20 per cent tax offset is also available in respect of net medical expenses costing over $2060. “Net medical expenses” is the difference between medical expenses incurred relating to you or your dependants, less any refund you may have already received from Medicare or a private health insurance provider. Certain medical expenses are either excluded, such as cosmetic surgery, or require a doctor to direct that an individual receive therapeutic treatment, such as physiotherapy. The Australian Government announced in the 2012-13 Federal Budget that the medical expenses offset will be means tested from 1 July 2012 for people whose adjusted taxable income exceeds the Medicare levy surcharge ($84,000 for singles and $168,000 for couples), who will only be able to claim a 10 per cent tax offset for net medical expenses exceeding $5000 in the 2012-13 tax year. Where practicable such individuals should consider bringing forward eligible medical expenses by 30 June 2012.

The government also announced in the 2012-13 Federal Budget that the education tax offset for the 2011-12 tax year will be paid out in full as a lump sum to all eligible families (those who have claimed Family Tax Benefit A) in June 2012 as part of the transition to the proposed Schoolkids Bonus. This means that an amount of $409 for each child in primary school and $818 for each child in secondary school will be paid out automatically, and that parents do not have to claim any offset entitlement in the 2011-12 tax return or keep receipts.

## 10. Consider tax effective superannuation contributions

A self-employed person will be able to claim their contributions to a complying superannuation fund as fully tax deductible up to the age of 75 in the 2011-12 tax year. However, such contributions will only be deductible if less than 10 per cent of the total of a person’s assessable income, reportable fringe benefits or reportable employer superannuation contributions is attributable to their employment as an employee. Such a deduction cannot increase or create a tax loss to be carried forward. Employers can also claim deductions for superannuation contributions made on behalf of their employees provided the employee is under 75 in the 2011-12 tax year.

Any excess contributions made by the self-employed or by an employer in respect of an employee will be taxed in the superannuation fund at a rate of 46.5 per cent rather than 15 per cent. The excess contribution limit for the 2011-12 tax year is $25,000 or $50,000 for those aged 50 or more as at 30 June 2012.

The government announced in the 2012-13 Federal Budget that the higher concessional contributions cap of $50,000 would not be available in the 2012-13 and 2013-14 tax years. Accordingly, all taxpayers, regardless of age, will have their concessional superannuation contributions capped to $25,000 in these years. Hence, affected taxpayers aged 50 or over may wish to consider making increased superannuation contributions by 30 June 2012 if they have not otherwise used their current $50,000 cap. This measure will also have significant implications for the salary packaging and transition to retirement strategies of many taxpayers aged 50 or over. It is currently proposed that the $50,000 cap will in be reinstated from the 2014-15 tax year for individuals aged 50 or over but only where their aggregate superannuation balances are under $500,000.

The government also separately announced in the 2012-13 Federal Budget that the effective tax rate on concessional superannuation contributions made by a high-income earner with an income greater than $300,000 would double from 1 July 2012. This is achieved by having the tax concession on their concessional contributions reduced from 30 per cent to 15 per cent. Such individuals may therefore wish to consider making the maximum superannuation contribution possible under the current rules prior to 30 June 2012.

### 11. Consider the superannuation co-contribution

An individual likely to earn less than $61,920 in the 2011-12 tax year should also consider making after-tax contributions to their superannuation to qualify for the superannuation co-contribution. The government will match after-tax contributions dollar for dollar up to a maximum of $1000 for a person earning up to $31,920. The maximum then reduces by 3.333 cents for every dollar of total income, less allowable business deductions, over $31,920 reducing to nil at $61,920. From 1 July 2012, the maximum co-contribution amount payable will be halved to $500 a year.

# Business

### 1. Review salary sacrifice arrangements

Employers who have employees on salary sacrifice arrangements may wish to review salary packaging arrangements where employees have foregone gross salary to obtain a packaged car as revised fringe benefits tax (FBT) rules apply to packaged cars acquired on or after 10 May 2011.

Essentially, a 20 per cent flat FBT rate is being phased in over four years for new packaged cars that travel more than 25,000 km annually. For those employees who use the vehicle for a significant amount of work-related travel the tax savings associated with packaging the car have typically decreased. Hence, they may wish to use logbooks and have their car fringe benefit taxed under the operating cost method in order to increase their tax savings on such vehicles. Alternatively, where such travel is predominantly private in nature employees travelling in excess of 25,000 km may wish to review the tax efficiency of acquiring a new packaged car. Very broadly, the concessional rates which progressively reduced the FBT on a packaged car as total kilometres travelled increased now only apply to packaged cars acquired before 10 May 2011.

On the other hand, employees who travel less than 25,000 km may now wish to consider packaging a new car as there are now potential tax savings available as the taxable value of their car fringe benefit has decreased following the introduction of the 20 per cent flat FBT rate.

The government also announced in the 2012-13 Federal Budget that the living-away-from-home tax concession will only be available for a maximum period of 12 months for employees who maintain a home for their own use in Australia while living away from home for work purposes. However, these changes will not apply to employees working on a "fly-in, fly-out" arrangement or to the treatment of travel and meal allowances on short-term travel of up to 21 days. The removal of these concessions is an additional cost incurred that would need to be included in determining the salary package of affected employees.

### 2. Make and document trust resolutions by 30 June

Broadly, a trustee of a discretionary trust is required to make and document a resolution as to how income of the trust estate for the 2011-12 tax year is to be distributed among beneficiaries on or before 30 June 2012. The ATO formerly allowed trustees until 31 August to make a trust resolution in respect of the previous year ended 30 June but withdrew this administrative concession effective 1 September 2011.

Where a valid resolution is not executed before 30 June any default beneficiaries under the deed will be become presently entitled to trust income and be subject to tax (even where they do not receive any cash distribution), or the trustee will be assessed at the highest marginal rate at 46.5 per cent on the basis that there is no presently entitled beneficiary.

In practice, a trustee must be able to evidence the making of an effective resolution in draft minutes, file notes or an exchange of correspondence which has been documented before 30 June but the trust's accounts do not need to be prepared by this time. As a corporate trustee would need time to notify its directors that a meeting must be convened to pass and document a resolution it would be prudent that such a notice be sent out well before the 30 June deadline.

### 3. Stream trust capital gains and franked dividends

A trustee of a discretionary or family trust will be able to stream capital gains and franked dividends among different beneficiaries where the trust deed allows the trustee to make a beneficiary "specifically entitled" to such amounts. As a corollary the balance of the trust's taxable income excluding such gains and dividends will be proportionally

assessed to beneficiaries to the extent to which the trustee has made the beneficiaries presently entitled to a share of trust income. The trustee will therefore only be assessed on the trust's taxable income to the extent to which beneficiaries are neither presently entitled to trust income or specifically entitled to a capital gain or franked dividend.

Broadly, a "specific entitlement" to a capital gain or franked dividend will be created where:

- the terms of the trust deed allow a trustee to make a beneficiary specifically entitled to a capital gain or franked dividend
- the beneficiary receives, or can reasonably be expected to receive, an amount equal to the net financial benefit of the capital gain or franked dividend
- the trustee discloses the beneficiary's specific entitlement in the trust accounts and in the trustee's resolution

All three requirements must be met in order for the gain or dividend to be streamed to specifically entitled beneficiaries. Taxpayers should consult their CPA registered tax agent regarding compliance with these complex new rules.

## 4. Comply with Division 7A

The ATO is vigilant in cracking down on businesses that use either the funds or assets of a private company for personal purposes.

Any personal expenses (e.g. school fees) paid by a private company in respect of a shareholder or associate (e.g. family member) of the company, or any funds withdrawn from the private company by that shareholder as a loan, may be treated as a deemed dividend to the shareholder. Where such a payment or loan has not been repaid by the earlier of the actual or due date of lodgement of the private company's tax return for the year ended 30 June 2012, a deemed dividend can only typically be prevented if a complying loan agreement to repay the expense or loan is put in place.

Furthermore, a deemed dividend can also arise where a private company provides a company-owned asset such as real estate, a car or a yacht for the private use of the shareholder or associate at either a free or discounted rate. The amount of the dividend is the market value of such use less any consideration paid. However, the deemed dividend will not arise if the annual value of the benefits received was less than $300, the private usage would otherwise have been allowable as a once-only deduction or where certain dwellings are provided for private use by the company.

You may wish to consult your CPA registered tax agent if you believe such a deemed dividend has arisen for the year ended 30 June 2012.

## 5. Prevent deemed dividends in respect of unpaid trust distributions

From a practical perspective any distribution by a trust to a private company beneficiary which remains unpaid may be regarded as a deemed dividend in the hands of the trustee of the trust, which may create a range of adverse outcomes. Trustees and beneficiaries should consult their CPA registered tax agent on the full ramifications of these complex rules if applicable.

Broadly, the ATO now regard an unpaid present entitlement (UPE) owed by a trust to a related private company beneficiary which arises on or after 16 December 2009 as a deemed loan where the trustee and the company are controlled by the same family group. In these circumstances the associated trust may be taken to have derived a deemed dividend for the amount of the unpaid trust distribution.

For a UPE arising on or after 1 July 2011 the associated trust becomes presently entitled to the UPE in the year ended 30 June 2012 as the loan is regarded as the provision of financial accommodation or the making of an in-substance loan.

In these circumstances a deemed dividend may be prevented if the UPE is paid out, or a complying loan agreement is entered into, by the due date of lodgement of the private company's 2012 income tax return on 15 May 2013. Alternatively, a deemed dividend will not arise if the amount of the UPE is held on a sub-trust for the sole benefit of the private company beneficiary who receives an "agreed return" on the UPE as well as ultimately a repayment of the principal funds representing the UPE. Broadly, such a sub-trust will arise where the funds representing the UPE are invested in specific assets where any related income or capital gains are held on trust for the private company, or where funds are repaid over a seven or 10-year term with annual interest payable at stipulated benchmark rates under Division 7A.

## 6. Write off bad debts

Businesses can only obtain income tax deductions for bad debts where various conditions are met.

Essentially, the deduction will only be available where the debt is still in existence at the time it is written off. Thus, if the debt is forgiven or compromised before it is written off as bad in the accounts no deduction will be available. Moreover, the debt must be effectively irrecoverable and written off in the accounts as bad in the year in which the deduction is claimed. The amount representing the bad debt must have been previously brought to account as assessable income or lent in the ordinary course of carrying on a money-lending business. Certain additional requirements must be met where the creditor is either a company or trust.

## 7. Maximise depreciation deductions

A taxpayer that is an eligible small business entity (SBE) may elect to claim deductions for depreciating assets on a simpler and more concessional basis than other business taxpayers.

An SBE can claim an immediate deduction for a depreciating asset which cost less than $1000 in the 2011-12 tax year. In addition, the SBE can currently pool the cost of a depreciating asset costing $1000 or more into either a general small business pool where an asset has an effective life of less than 25 years, or to a long-life small business pool where the asset has an effective life of 25 years or more. Deductions can be claimed for each pool of assets on a diminishing value basis as each pool is regarded as a single depreciating asset. Broadly, the full year write-off rate is 30 per cent (or 15 per cent for additions) where the asset is allocated to the general pool, and 5 per cent (or 2.5 per cent for additions) for an asset allocated to the long life pool.

Broadly, an SBE must carry on a business and its turnover (excluding GST) cannot exceed $2 million. Such turnover will also be aggregated to include the turnover of certain affiliates and entities connected with the taxpayer.

An eligible SBE may consider deferring the purchase date of depreciating assets (e.g. office equipment) until after 30 June 2012 as the threshold for the immediate deduction for a depreciating asset increases from $1000 to $6500 from 1 July 2012. Furthermore, from 1 July 2012 there will only be a single general depreciation pool with all assets depreciated at 30 per cent (15 per cent for additions) as the closing balance of any long-life pool must be amalgamated with the general pool.

## 8. Defer work car purchases until 1 July 2012

An eligible SBE may wish to defer acquiring a business vehicle (e.g. a ute) until after 30 June 2012 as the entity will be able to claim an immediate deduction for the first $5000 of the cost of such a vehicle if it started to use the vehicle or has it installed ready for use during the 2012-13 tax year.

Moreover, the remainder of the cost of the vehicle will also be depreciated under a new single pool depreciation rate of 15 per cent in the initial year of purchase and 30 per cent in subsequent years to the extent that the vehicle was used for a taxable purpose. This concession does not apply to tractors, graders, road rollers, combine harvesters, trailers and earthmoving vehicles.

## 9. Claim the entrepreneur's tax offset

The 2011-12 tax year is the final year in which an eligible SBE can claim the entrepreneur's tax offset which is equal to 25 per cent of the income tax payable on the entity's net business income. This offset is only available where the entity's business income for the year ended 30 June 2012 does not exceed $50,000. The rebate reduces for every dollar on business income in excess of $50,000 and phases out completely where income exceeds $75,000. The offset is also means tested and will phase out at 20 cents for every $1 of income over specified thresholds of adjusted taxable income being $70,000 for single taxpayers and $120,000 for families. Broadly, adjusted taxable income is the total of taxable income, reportable fringe benefits total, reportable superannuation contributions and total net investment loss for the 2011-12 tax year.



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