THE MONEY EDGE

2021 Tax Planning Guide

Smart tax minimisation is about clever technical planning and a well-informed long-term strategy.

Tax owed to the ATO is probably one of the biggest shocks to business owners when they start generating a healthy profit.

Tax deductions mean that one must spend money, and therefore deduct that expenditure from their tax payable. This often leads to people buying things unnecessarily just to get a tax deduction.

Being smart about tax should be a key part of your business and personal wealth strategy. By not paying more tax than you need to, you can make better use of your business profits to get one step closer to financial freedom.

Tax planning ‘after’ 30 June is not effective or not available at all.

Structuring Assets

Rather than trying to minimise tax via spending, structuring your business and personal assets is the best place to start when minimising tax.

When considering where to hold your investment assets, you need to take into account a number of factors:

- Holding investments under a trust structure would give you access to a 50% capital gains discount.
- A company structure does not receive a CGT discount however, does have the advantage of a capped tax rate, which could be valuable if the investment is generating significant income each year.

The correct structure depends on your personal circumstances. It should be the first conversation you have around tax minimisation. If you'd like to learn more about how to structure your assets for greater effect, contact The Money Edge.

Finding the right structure depends on your situation.

Maximise the $25,000 tax deductions

If your cashflow permits, taking advantage of super contributions is a great way to minimise tax and set yourself up better for later in life. A total of $25,000 can be contributed into your super in the financial year and claimed as a tax deduction.

Running a business from a family trust can offer flexibility in maximising super contributions. A common scenario is distributing profit to a family member and then having that person contribute the money to super and claim a tax deduction.

Example

A husband and wife and run a farm together. They utilise a family trust structure. This financial year the farm has a $250,000 profit.

- If no tax planning takes place, they will each receive a distribution of $125,000 each and will have tax payable of $36,242 each.
- If tax planning does take place and they each contribute $25,000 into super before June 30, their taxable income is reduced to $100,000. Their tax payable is minimised to $26,117 each.

Negative Gearing

Negatively gearing is a common tax saving scenario, and remains an effective strategy, provided the underlying investment experiences ongoing growth in capital value.

Negative gearing essentially means that the income you receive from your investment is less than the expenses you paid to hold the investment.

Here’s an example of how negative gearing works:

- An investment property you hold receives $30,000 in rent per year.
- You have $40,000 in ongoing expenses such as loan interest, council rates and maintenance fees.
- Because you have $10,000 more expenses than income, this would allow you to deduct $10,000 from your taxable income each year.

This strategy only works well when the underlying asset is increasing in value. For example:

- A good negative gearing strategy may cost you $5,000 per year to hold a property
- The property value must increase by more than the $5,000 each year to justify the cost of the loss.

Income Protection

If you have a plan that provides you with a strategy to build wealth over time, then the only thing that may prohibit you from achieving your goal is illness or injury.

This is why we strongly advise our clients to acquire income protection. It's a great way to provide your family with peace of mind.

- If you hold income protection in your own name, you're able to claim it as a tax deduction.
- Income protection is relatively affordable.
- It should be treated as an essential expense to protect your most valuable asset.

This is often a forgotten deduction!

Review your business's financial performance

While business owners should be reviewing their year to date performance regularly, if this hasn’t occurred, now is the time to be doing it. Preparation of up to date management financial statements and cashflows with comparisons to previous years will help to determine how the business has performed to date, the likely full year performance and will establish a platform for this years tax planning and future cashflow.

Company Tax Rate

2021 is unique because there have been levels of stimulus provided to businesses by the Government.

Further, the Base Rate Entity company tax rate will drop from 27.5% in 2020 to 26% in the 2021 year.

With the reduction in company tax rates, the franking credit rules will change. Any dividends paid must be franked to the same tax rate that applies to the company in the year the dividend is paid. Accordingly, in 2021 year there may be some leakage of franking credits if tax was paid at 27.5%, but the rate next year becomes 26% so dividends are to be franked at 26%

Cashflow Boost & Jobkeeper

Many businesses have received either Government 'Cash Flow Boost', or Jobkeeper payments.

Cash Flow boost is not taxable. If received in a company, it can represent unfranked profits so is ultimately taxable when paid to shareholders. However, it should not be taxable if received by a sole trader, partnership or trust where these payments end up in the hands of individuals.

Jobkeeper Payments are taxable, but are offset by payments to employees so there should be no net taxable income.

Instant Asset Write-Off

Over the last number of years, the Government has incentivised businesses to invest in assets by allowing them generous thresholds to write off the cost of an asset as a tax deduction in the year of purchase.

From 6 October 2020 until 30 June 2022, temporary full expensing allows a deduction for:

- the business portion of the cost of new eligible depreciating assets for businesses with an aggregated turnover under $5 billion
- the business portion of the cost of eligible second-hand assets for businesses with an aggregated turnover under $50 million
- the balance of a small business pool at the end of each income year in this period for businesses with an aggregated turnover under $10 million.

Motor Vehicles

If you are planning on purchasing any vehicle in your business please contact us with the make and model of the vehicle to confirm any ATO Fringe Benefits Tax issues and the car limit.

Super Contributions

As a business owner, you can claim a maximum deduction of $25,000 by contributing super in the following ways:

- Pay your super direct from the business and claim a deduction in the business expenses.
- Contribute to super personally and claim the deduction in your personal tax return.

The ATO considers that only contributions that are received by a superannuation fund by 30 June 2021 on behalf of employees including working directors, are tax deductible to your business in the 2021 year.

Payment to a superannuation clearing house before 30 June may not be sufficient to guarantee deductibility as the clearing house needs to pay it to the fund. Accordingly, if you plan to pay all June quarter superannuation before the end of June, we recommend this be done as early as possible. As 30 June falls on a Wednesday in 2021 we recommend that contributions are made in the week prior. The ATO considers that businesses contributing via the Small Business Clearing House should be contributing by 23 June in order to ensure the contribution is with the fund by 30 June.

Small Business Capital Gains

If you have made a capital gain in relation to an asset (excluding Plant & Equipment) used in your business, there are various CGT concessions that may be available. The turnover threshold for the concessions remains at $2 Million rather than $10 Million. They are also available for small business entities and business taxpayers with net assets of <$6 Million.

If available the taxpayer may be able to access:

- 15-year exemption (no tax payable)
- 50% active asset discount
- Retirement exemption (up to $500,000 tax free per taxpayer)
- Active asset roll-over (minimum 2-year deferral)

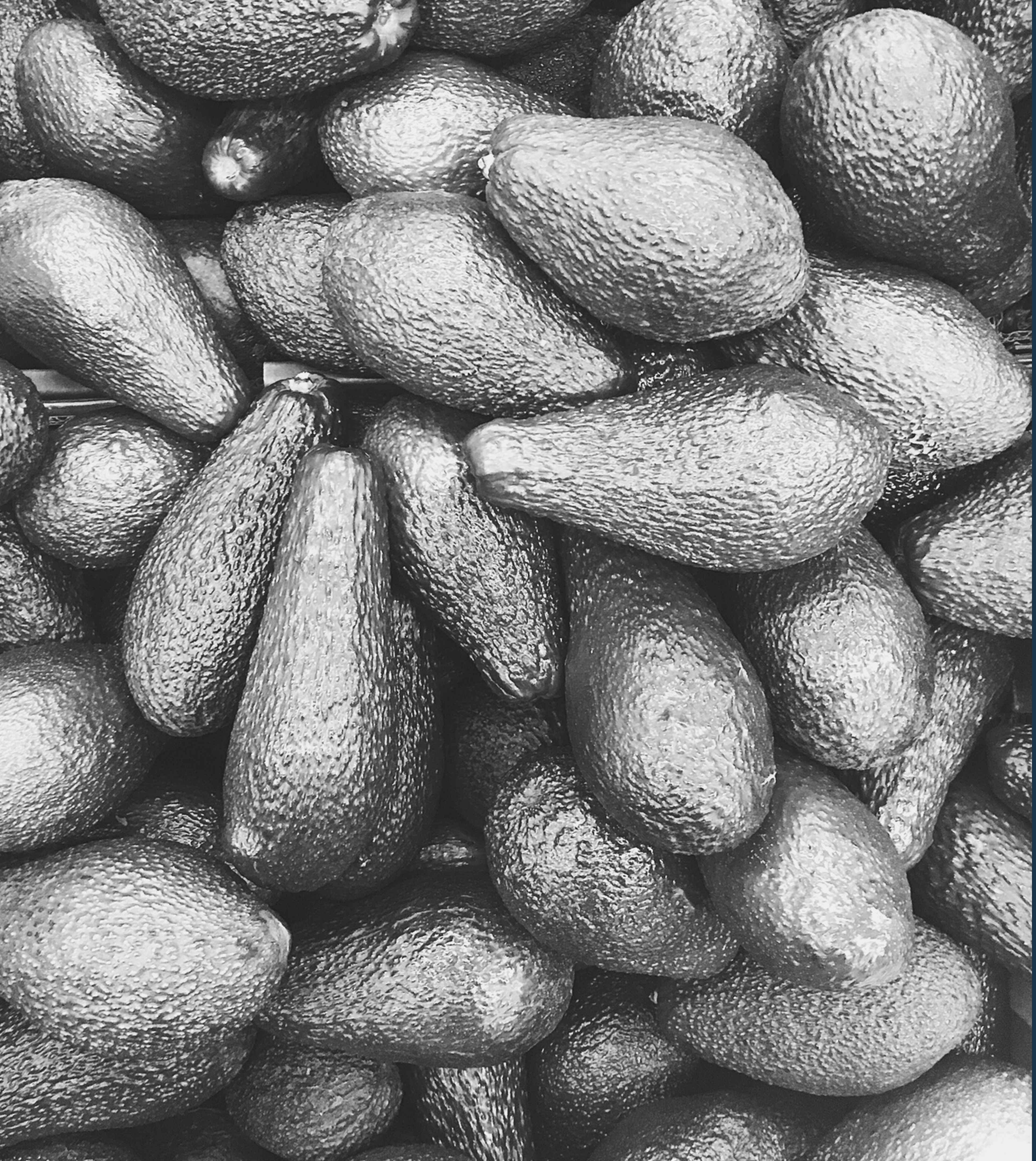
Please talk to us before you consider selling your business to avail yourself of the best possible concessions.

Tax planning ‘after’ the event is not effective or not available at all.

Income Received in Advance
Consider whether income received is actually derived. Income received in advance may not be derived (and not taxable) until the services are provided. Conversely income such as interest, royalties, rent and dividends are usually derived upon receipt.

Bad debts
Review your debtors and if any are unlikely to be recovered, actually write them off as bad before 30 June. This will reduce your income tax and should generate a GST refund (for taxpayers registered for GST on a non-cash basis).

Timing of Expenses
Expenses are only deductible when incurred, i.e. there must be a presently existing liability to pay the expense. Many accruals and provisions are not deductible as they represent an estimate of expenses and do not relate to a presently existing liability. Most prepayments now are not deductible until the period to which they relate (some exceptions apply), although small businesses and individuals may be able to deduct 12 months of prepayments in the year paid.



Wage Bonuses

Bonuses are only deductible when they are actually incurred i.e. at 30 June the business must be committed to paying them and they are not subject to any discretion.

Trading Stock & Inventory

Prepare for a stock take on 30 June. Identify any obsolete or old stock and scrap it or write it down to its correct market value. Individual items of trading stock can be valued at cost, market value, or replacement value for tax purposes. The tax value may differ to the accounting value.

PAYG Instalments

If you are a taxpayer on the PAYG Instalment system and you plan to use some of these tax planning tips to reduce your taxable income, you may be able to vary the June quarterly instalment (due 28 July) to a lower amount to assist with your cashflow. We suggest you contact your advisor to discuss this.

Non-commercial Losses

Losses of a business carried on by an individual or partnership may be required to be quarantined until future years against income of that or of a similar / related business. The exceptions are:

- If there is assessable income from the business of >$20,000
- Profit in 3 out of the last 5 years
- Real property of $500,000 or more is used in the business;
- Other assets of $100,000 or more are used in the business;
- Commissioner’s discretion is exercised in relation to that business.

In addition to the above, taxpayers with adjusted taxable incomes above $250,000 cannot use these tests and losses are quarantined until a year where income falls below $250,000.

Trust Distributions

Trustees of discretionary trusts need to decide before 30 June which beneficiaries they will nominate to be entitled to receive the trust income distributions

The trust deed should be reviewed to consider how trust income is to be determined and to which beneficiaries' income can be distributed.

Trust Distributions are a continued ATO focus, so care must be taken.

Individual Tax Rates

Australian income tax rates for 2020/21 (residents)

Income thresholds	Rate	Tax payable on this income
$0 – $18,200	0%	Nil
$18,201 – $45,000	19%	19c for each $1 over $18,200
$45,001 – $120,000	32.5%	$5,092 plus 32.5c for each $1 over $45,000
$120,001 – $180,000	37%	$29,467 plus 37c for each $1 over $120,000
$180,001 and over	45%	$51,667 plus 45c for each $1 over $180,000

Company Tax Rates

Base rate entities

26%

A base rate entity is a company that both:

- has an aggregated turnover less than the aggregated turnover threshold – which is $25 million for the 2017–18 income year and $50 million from the 2018–19 income year
- 80% or less of their assessable income is base rate entity passive income – this replaces the requirement to be carrying on a business.

Otherwise

30%

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