

ChecklistSummary

June 2008

2008 Tax Planning Highlights

Recent tax changes provide taxpayers with some important tax planning opportunities that should be considered prior to 30 June 2008.

This list is not exhaustive and your individual circumstances must be considered. Consult your PKF adviser before acting on any of the information in this document.

Individuals

Defer Income until after 1 July 2008

The increases in the income thresholds that are effective from 1 July 2008 give an incentive for some individuals to defer the derivation of income until after 30 June 2008.

Review Salary Packages

All employees with salary packaged benefits that have a taxable income less than \$180,000 should review their salary sacrifice arrangements before 1 July 2008. Salary packaging for these employees may be less attractive due to the change in the tax rates and thresholds. There are also changes to FBT exemptions and reductions that may further restrict the attractiveness of salary packaging after 13 May 2008.

Low-income Thresholds

Consider ways of allocating income to any low income individuals in your family group. Individuals (other than minors) with income below \$11,000 do not pay tax. This will increase to \$14,000 for the 2008/09 tax year).

Minors' (children under 18 years) effective tax free threshold is \$1,667. This will increase to \$2,667 for the 2008/09 year.

Investors

Wash sales

If you have made taxable capital gains and are looking at crystallising capital losses to offset against the capital gains before 30 June 2008, you should take care as the ATO may disallow the loss if it is created without effectively disposing of the economic interest in or control over the loss asset.

Capital Protected Borrowings

Deductable portion of interest on capital protected borrowings reduced from 13 May 2008.

Small to Medium Business

Private Company Loans

There is relief from deemed dividends that have arisen under Division 7A due to an honest mistake or inadvertent omission if the situation is rectified by 30 June 2008.

For example: John and Joan Brown are shareholders of Brown Pty Limited and they are also discretionary beneficiaries of the Brown Family Trust. In the 2006 tax year Brown Pty Limited made a \$100,000 loan to the Brown Family Trust for the trust to purchase an income producing asset. There was no written loan agreement and therefore the loan should have been treated as a deemed dividend under Division 7A.

John and Joan and their tax advisers did not realise that the Family Trust was an associate of the shareholders and therefore incorrectly thought Division 7A did not apply. John and Joan changed tax advisers during the 2008 tax year and they were informed of the error. If the company and the trust take the required corrective action by 30 June 2008 they can self assess the Commissioner's discretion not to treat the loan as a deemed dividend.

Family Trusts – Definition of 'Family' Tightened

The Government will reverse two of the family trust changes introduced by the previous Government. The definition of family in the family trust election rules will be changed to limit lineal descendants to children or grandchildren of the test individual or of the test individual's spouse. This change will have effect from 1 July 2008. Therefore, if a family trust was considering making distributions to family members that will be excluded from the test individual's family group make sure it is before 1 July 2008.

CGT

Access to the small business CGT concessions has been widened for the 2007/08 and later years for taxpayers accessing the concessions via the \$2m aggregated turnover test where they own assets used in a business by a related entity and for partners that own a CGT asset used in a partnership.

Ongoing Year End Tax Planning issues

Small Business Entity

- Consider whether the taxpayer is eligible to be a Small Business Entity (SBE) if turnover is less than \$2 million.
- Benefits of being an SBE include:
 - Accounting on a cash instead of accrual basis;
 - Small business CGT concessions
 - Simplified depreciation rules;
 - Simplified trading stock regime;

Timing of Income Derivation

- Consider whether you use cash or accruals basis of accounting.
- Can you defer income receipt until after 30 June 2008 (delay payment of tax)?
- If you are in losses, can you accelerate income receipt prior to 30 June 2008 to recoup losses

Income Received in Advance

- Not taxed until services provided to customer;
- Must be credited to an unearned income suspense account;
- Must be released to profit when services are provided.

Timing of Expenses

- Expenses deductible if incurred by 30 June 2008:
- Provisions generally not deductible;
- Some accruals not deductible;
- Some prepayments not deductible;
- Interest deductions after business ceases may be deductible.

Repairs

- Incur expenses for repairs and maintenance on or before 30 June 2008, but must not be:
 - Initial repairs;
 - Substantial replacement of an asset;
 - Improving an asset.

Gifts

- Donate gifts to tax deductible charities on or before 30 June 2008.
- Check that payment is to an ATO endorsed "deductible gift recipient".
- Gift not deductible if some benefit is received by the donor unless given at an "eligible fundraising event".

Bad Debts

- Review before 30 June 2008.
- Physically write off bad debts before year end.

Trading Stock

- Consider appropriate valuation - lower of cost, market value or replacement.
- Identify any obsolete stock – special valuation rule.
- Scrap unwanted stock by 30 June 2008.
- SBE taxpayers no need to do stock valuation if difference between opening and closing value <\$5,000.

Prepayments/Advanced Expenditure

- Consider prepaying deductible expenditure by 30 June 2008.
- The prepayment rules can operate to spread the deduction over more than one year.
- The prepayment rules do not apply to salary, amounts required to be paid by law or a court, expenditure under \$1,000.
- SBE taxpayers and non-business individuals are allowed prepayments if the benefit is not more than 12 months.

Superannuation

- Discuss with a qualified financial adviser the following:
 - The transition to retirement pensions while still working;
 - Superannuation contributions for spouse to get superannuation contribution rebate;
 - Make undeducted contributions to get Government 150% co-contribution;
 - Employee superannuation guarantee contributions - 9% of employee's gross wage by 28 July 2008 - quarterly contributions are now required.

Directors' and Employees' Entitlements

- Conduct shareholders' meetings before 30 June 2008 to approve directors' fees and staff bonuses to get deductions for 2008 year.
- Ensure arrangements for employee bonuses based on 2007/2008 results are in place before 30 June 2008.

Entrepreneur's Tax Offset

- If the taxpayer is a SBE with turnover of less than \$75,000 they may be eligible to the entrepreneur's tax offset of up to 25% of tax payable on SBE income

Sale of Investments

- Where CGT assets will be realised for a gain, delay sale until after 30 June, unless you have losses that may be lost in future years because of the company or trust loss rules.
- Crystallise capital losses to offset against capital gains, but loss may be disallowed if loss asset or similar asset is reacquire, or asset is still controlled by taxpayer.
- If assets held for less than 12 months consider delay of sale until 12 months to take advantage of the CGT discount concessions, if eligible.
- Consider whether eligible for small business concessions; To qualify must pass the \$6m net asset threshold or \$2 turnover threshold and active asset test.

Ceasing Business or Business Assets Sold

- Consider the consequences of payments for employee entitlements, the transfer of employee entitlements to a new employer, or the payment of redundancy payments.
- Are small business concessions, rollovers, or superannuation contributions available?
- Will there be any expenses incurred after business ceases – consider whether they are still deductible?

Business Related Costs and Certain Project Costs

- Deduction for project costs – deductible over the life of the project;
- Other business related costs are deductible over 5 years for (certain costs that are not otherwise deductible or included in a CGT or capital allowance cost base).

Depreciation

- Scrap all obsolete items by 30 June 2008.
- Increase depreciation rate by reassessment of effective life of asset if use is greater than ATO estimate of effective life.

- Items that cost less than \$1,000 consider putting into a low value pool, diminishing value rate of 37.5%.
- Replacement of some items of less than \$100 (\$300 if not in business) may be deductible immediately,
- SBE depreciation concessions:
 - immediate deduction Items costing less than \$1,000;
 - Items of plant costing \$1,000 and more – automatic pooling facility: 30% rate (5% if life over 25 years)

Imputation

- If shares are not held at risk for at least 45 full days the franking offset may not be available (except for individuals whose franking offset <\$5,000 p.a.)
- Non fixed trusts receiving dividends – beneficiaries must have a vested and indefeasible interest or franking offset may be lost unless a family trust election is made.
- If partly franked dividends paid have all dividends been franked in accordance with the benchmark percentage (franking percentage of first distribution in the company's franking period).

Year End Tax Effective Investments

- Has the promoter obtained a product ruling?
- Is it the subject of an ATO Taxpayer Alert?
- Consider the impact of Part IVA and integrity measures.
- ATO warning signs include:
 - Arrangement contrived or artificial;
 - Limited or non-recourse funding;
 - Minimal cash outlay;
 - In-built exit strategies;
 - High management fees or promoters' commission;
 - Arrangement not economically viable without the tax benefit;
 - The arrangement has not been independently assessed for economic viability; and
 - There are prepayments involved (may not be fully deductible in current year).

Please Note: These comments are only summaries of the issues for general information and should not to be taken to be advice by PKF. Consequently PKF accept no responsibility to any person who acts on information herein without consultation with PKF.

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