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EOFY
Actions for Business

In brief

Date	Changes and actions
29 January 2019	• Instant asset write-off increased from \$20,000 to \$25,000
2 April 2019	• Instant asset write-off increased from \$25,000 to \$30,000 (7:30pm AEDT) • Threshold to access instant asset write-off expanded to businesses with an aggregated turnover up to \$50 million
Pre 30 June 2019	• Review shareholder loan accounts and make minimum loan repayments (may need to declare dividends). The maximum franking percentage rules have changed recently – we can discuss this with you. • Pay superannuation to deduct contributions in the current financial year. • Complete a stocktake where required (see Do you need to do a stocktake?). • Write off bad debts and scrap any obsolete stock or plant and equipment. • Ensure any inter-entity management fees have been raised.
1 July 2019	• Single touch payroll is compulsory for employers. Standard business reporting-enabled software must be used to report payments such as salaries and wages, PAYG withholding and superannuation information. Some leniency is provided to businesses with 19 or less employees. • Taxable payments annual reporting extended to businesses providing road freight, information technology, and security, investigation or surveillance services.
14 July 2019 (on or before)	• PAYG Payment Summaries provided to all of your staff or single touch payroll finalisation declarations needs to be made.
28 July 2019	• Quarterly super guarantee payment due (1 April – 30 June).
14 August 2019	• Annual PAYG Payment Summary lodged with the ATO if applicable. Penalties apply for late lodgement.
28 August 2019	• Taxable payments annual report due for the building and construction industry, cleaning and courier services industries.
30 June 2020	• \$30k instant asset write-off scheduled to reduce back to \$1,000 and the instant asset write-off rules for medium sized businesses are due to expire
1 July 2020	• Proposed start date of fundamental changes to the way Division 7A operates. Division 7A captures situations where shareholders access company profits in the form of loans, payments or the forgiveness of debts.

What's new

Extension and increase to the instant asset write-off

The ability for small business entities to claim an immediate deduction for assets costing less than $20,000 has been extended (again) and expanded. The new laws:

- increase the threshold below which small business entities can access an immediate deduction for depreciating assets and certain related expenditure (instant asset write-off) firstly to $25,000 and then to $30,000; and
- enable businesses with aggregated turnover of $10 million or more but less than $50 million to access the instant asset write-off for depreciating assets and certain related expenditure costing less than $30,000.

Instant asset write-off thresholds	Small Business*	Medium business**
1 July 2018 – 28 January 2019	$20,000	-
29 January 2019 – 2 April 2019	$25,000	-
2 April - 30 June 2020	$30,000	$30,000

** aggregated turnover under $10 million*
*** aggregated turnover under $50 million*

Assets will generally need to be used or installed ready for use from Budget night (7:30pm AEDT, 2 April 2019) and by 30 June 2020 to qualify for the higher threshold. Anything previously purchased does not qualify for the higher rate but may qualify for the $20,000 or $25,000 threshold. Similarly, anything purchased but not installed ready for use by 30 June 2020 will likely be subject to a $1,000 threshold.

The instant asset write-off only applies to certain depreciable assets. There are some assets, like horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc., that don't qualify although this can depend on the size of the business.

If you are concerned about whether a purchase you are contemplating (or have purchased) qualifies for an immediate deduction, please call us to clarify.

For assets costing $30,000 or more

For small businesses (aggregated turnover under $10m), assets costing $30,000 or more can be allocated to a pool and depreciated at a rate of 15% in the first year and 30% for each year thereafter. If the closing balance of the pool, adjusted for current year depreciation deductions (i.e., these are added back), is less than $30,000 at the end of the income year, then the remaining pool balance can be written-off as well.
The 'lock out' laws for the simplified depreciation rules (these prevent small businesses from re-entering the simplified depreciation regime for five years if they opt-out) will continue to be suspended until 30 June 2020.

Pooling is not available for medium sized businesses which means that the normal depreciation rules based on the effective life of the asset will apply to assets that don't qualify for an immediate deduction.

Single touch payroll extended to all employers

From 1 July 2019, single touch payroll – the direct reporting of salary and wages, PAYG withholding and superannuation contribution information to the ATO – will apply to all employers. What employers need to report will also be extended to include certain salary sacrificed amounts.

Employers with 20 or more employees have been required to use single touch payroll since 1 July 2018. The new rules push all businesses with employees into the single touch payroll system. While this would generally include the situation where payments are made to the owners of the business in the form of salary, wages or directors fees, the ATO is providing some leniency around this for a limited period of time.

A number of software providers have now released low cost payroll options for micro employers (1-4 employees). MYOB and Xero have announced new $10 per month offerings (limited to 4 employees) with other software houses following suit.

The ATO also states that to assist micro employers there will be, “a number of alternate options that are not available to employers with 20 or more employees – such as initially allowing your registered tax or BAS agent to report quarterly, rather than each time you run your payroll.”

While the start date for small employers will technically start on 1 July 2019, the Commissioner of Taxation released a statement indicating that small employers can actually start reporting through single touch payroll any time from 1 July 2019 until 30 September 2019. No penalties will be applied to mistakes, missed or late reports for the first year.

Plus, if your business is in an area with no viable internet connection, such as some rural and remote regions, then exemptions may apply.

Reporting payments to contractors

From 1 July 2019, security providers and investigation services, road freight transport, and computer system design and related services businesses will need to collect specific information in relation to payments made to contractors (individual payments and total for the year). These businesses will need to lodge an additional report to the Australian Taxation Office with this information. The first report will be due by 28 August 2020.

Businesses within the building and construction industry, cleaning, and courier services need to report payments to contractors in the year ending 30 June 2019 by 28 August 2019.

No tax deductions if you don’t meet your tax obligations

From 1 July 2019, if taxpayers do not meet their PAYG withholding and reporting obligations, they will not be able to claim a tax deduction for payments:

- of salary, wages, commissions, bonuses or allowances to an employee;
- of directors’ fees;
- to a religious practitioner;
- under a labour hire arrangement; or
- made for services where the supplier does not provide their ABN.

The main exception is where you realise there is a mistake and voluntarily correct it before the ATO begins a review or audit. In these circumstances, a deduction may still be available if you voluntarily correct the problem but penalties may still apply for the failure to withhold the correct amount of tax. There is also an exception for situations where you make payments to a contractor but then later realise that they should have been paid as an employee, as long as the worker has provided an ABN.

Impending changes

Shareholder access to company profits through loans, payments and forgiven debts

Division 7A captures situations where shareholders access company profits in the form of loans, payments or forgiven debts. If certain steps are not taken, such as placing the 'payment' under a complying loan agreement, this is treated as a deemed dividend and taxable at the taxpayer's marginal tax rate.

Changes intended to apply from 1 July 2020 will fundamentally change the way these loans, payments or forgiven debts are treated. For those with existing Division 7A loan agreements in place, there could be significant changes to how the loan agreements are managed.

The Government has yet to finalise details of the changes. If you have existing Division 7A loans, we will work with you once the changes are finalised to ensure as smooth a transition as possible.

Financial house-keeping

Before you roll-over your software…

Before rolling over your accounting software for the new financial year, make sure you:

- Prepare your financial year-end accounts. This way, any problems can be rectified and you have a 'clean slate' for the 2019-20 year. Once rolled over, the software cannot be amended.
- Do not perform a Payroll Year End function until you are sure that your payment summaries are correct and printed. Always perform a payroll back-up before you roll over the year.

Employee reporting

Single touch payroll

Where payments to employees have been reported to the ATO through single touch payroll, a finalisation declaration generally needs to be made by 14 July, although an extension to 31 July 2019 has been granted for businesses that started to report through single touch payroll for the first time in the 2019 financial year. Payment summaries do not have to be provided to employees. Instead, employees will be able to access their Income Statement through myGov.

PAYG payment summaries

If you have not used single touch payroll in 2018-19, you need to provide all of your staff with their PAYG Payment Summary on or before 14 July 2019. This includes any staff that left your employment during the 2018-19 financial year.

If we prepare your Payment Summaries for you, please provide us with the data file from your accounting software.

The ATO imposes penalties for the late lodgement of PAYG Payment Summary Statements.

The annual PAYG Payment Summary Statement for the year ending 30 June 2019 needs to be lodged with the ATO on or before 14 August 2019. However, if we are preparing your Payment Summary for you and you only employ family members in your business (closely held employees), you may be eligible for an extension.

The main exception to this is where payments to the employees have been reported to the ATO through single touch payroll, in which case a finalisation declaration generally needs to be made by 14 July 2019.

Reportable Fringe Benefits on PAYG Payment Summaries

Where you have provided fringe benefits to your employees in excess of $2,000, you need to report the FBT grossed-up amount on their PAYG Payment Summary. This is referred to as a `Reportable Fringe Benefit' (RFB) amount and a label is included on the PAYG Payment Summary for this purpose.

Do you need to do a stocktake?

Businesses that buy and sell stock generally need to do a stocktake at the end of each financial year as the increase or decrease in the value of stock is included when calculating the taxable income of your business.

If your business has an aggregated turnover below $10 million you can use the simplified trading stock rules. Under these rules, you can choose not to conduct a stocktake for tax purposes if the difference in value between the opening value of your trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year is less than $5,000. You will need to record how you determined the value of trading stock on hand.

If you do need to complete a stocktake, you can choose one of three methods to value trading stock:

- **Cost price** – all costs connected with the stock including freight, customs duty, and if manufacturing, labour and materials, plus a portion of fixed and variable factory overheads, etc.
- **Market selling value** - the current value of the stock you sell in the normal course of business (but not at a reduced value when you are forced to sell it).
- **Replacement value** - the price of a substantially similar replacement item in a normal market on the last day of the income year.

A different basis can be chosen for each class of stock or for individual items within a particular class of stock. This provides an opportunity to minimise the trading stock adjustment at year-end. There is no need to use the same method every year; you can choose the most tax effective option each year. The most obvious example is where the stock can be valued below its purchase price because of market conditions or damage that has occurred to the stock. This should give rise to a deduction even though the loss has not yet been incurred.

Reduce your risks & minimise your tax

Top tax tips

1. Declare dividends to pay any outstanding shareholder loan accounts

If your company has advanced funds to a shareholder or related party, paid expenses or allowed a shareholder or other related party to use assets owned by the company, then this can be treated as a taxable dividend. The regulators expect that top up tax (if any applies) should be paid by shareholders at their marginal tax rate once they have access to these profits. This is unless a complying loan agreement is in place.

If you have any shareholder loan accounts from prior years that were placed under complying loan agreements, the minimum loan repayments need to be made by 30 June 2019. It may be necessary for the company to declare dividends before 30 June 2019 to make these loan repayments.

The tax rules in this area can be extraordinarily complex and can lead to some very harsh tax outcomes. It is important to talk to us as soon as possible if you think your company has made payments or advanced funds to shareholders or related parties.

2. Directors' fees and employee bonuses

Any expected directors' fees and employee bonuses may be deductible for the 2018-19 financial year if you have 'definitely committed' to the payment of a quantified amount by 30 June 2019, even if the fee or bonus is paid to the employee or director after 30 June 2019.

You would generally be definitely committed to the payment by year-end if the directors pass a properly authorised resolution to make the payment by year-end. The employer should also notify the employee of their entitlement to the payment or bonus before year-end.

The accrued directors' fees and bonuses need to be paid within a reasonable time period after year-end.

3. Write-off bad debts

To be a bad debt, you need to have brought the income to account as assessable income and given up all attempts to recover the debt. It needs to be written off your debtors' ledger by 30 June. If you don't maintain a debtors' ledger, a director's minute confirming the write-off is a good idea.

4. Review your asset register and scrap any obsolete plant

Check to see if obsolete plant and equipment is sitting on your depreciation schedule. Rather than depreciating a small amount each year, if the plant has become obsolete, scrap it and write it off before 30 June. Small business entities can choose to pool their assets and claim one deduction for each pool. This means you only have to do one calculation for the pool rather than for each asset.

5. Bring forward repairs, consumables, trade gifts or donations

To claim a deduction for the 2018-19 financial year, consider paying for any required repairs, replenishing consumable supplies, trade gifts or donations before 30 June.

6. Pay June quarter employee super contributions now

Pay June quarter super contributions this financial year if you want to claim a tax deduction in the current year. The next quarterly superannuation guarantee payment is due on 28 July 2019. However, some employers choose to make the payment early to bring forward the tax deduction instead of waiting another 12 months.

Don't forget yourself. Superannuation can be a great way to get tax relief and still build your personal wealth. Your personal or company sponsored contributions need to be received by the fund before 30 June to be deductible.

7. Realise any capital losses and reduce gains

Neutralise the tax effect of any capital gains you have made during the year by realising any capital losses – that is, sell the asset and lock in the capital loss. These need to be genuine transactions to be effective for tax purposes. It may be possible to contribute assets with unrealised losses to superannuation in order to do this.

8. Raise management fees between entities by June 30

Where management fees are charged between related entities, make sure that the charges have been raised by 30 June. Where management charges are made, make sure they are commercially reasonable and documentation is in place to support the transactions. If any transactions are undertaken with international related parties then the transfer pricing rules need to be considered and the ATO's documentation expectations will be much greater. This is an area under increased scrutiny.

What we need from you

This is a general list of what to have ready when we next meet with you:

- Accounts data file (MYOB, Quickbooks, access to Xero)
- Debtors & creditors reconciliation
- Stocktake if applicable (or, if your business is a Small Business Entity, use the simplified trading stock rules mentioned)
- 30 June bank statements on all relevant loan documents
- Documents on new assets bought or sold, including the date you entered the contract and the date the asset was first used or installed ready for use
- Payroll reconciliation
- Superannuation reconciliation
- Bank statements on operating accounts
- Cash book (if applicable)
- 30 June statements on any investment or operating accounts

And, if we are preparing your individual income tax return:

- PAYG Payment Summary
- Tax statements of managed investment funds
- Interest income from banks and building societies
- Dividend statements for dividends received
- For share sales or purchases, the purchase and sale contract notes
- For real estate sales or purchases, the solicitor's correspondence for the purchase and sale
- Rental property statements from real estate agent and details of other expenditure incurred
- Work related expenses
- Self-education expenses
- Travel expenses
- Donations to charities
- Health insurance and rebate entitlement
- Family Tax Benefits received
- Commonwealth assistance notices
- Medical Expenses (if these relate to disability aids, attendant care or aged care services)
- IAS statements or details of PAYG Instalments paid

- Details of any transactions involving cryptocurrency (e.g., Bitcoin)
- Details of any income derived from participating in the sharing economy (e.g., Uber driving, rent from AirBNB, jobs completed through Airtasker etc.,)

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