RJC EVANS & Co

# News

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2014

# FEDERAL BUDGET

RJC Evans & Co
BUDGET REVIEW ISSUE

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# End of Financial Year Sale...

**Now that's attracted your attention!**

Shortly many businesses will be advertising end of financial year sales. Prices will be "heavily discounted" or "Marked down." Stocktake sales will occur.

We all like a good deal. It's in our psyche. Where is this to be found in the tax field?

- Superannuation contributions. They are on sale everyday at a discounted rate of 15%, or up to 30% for high-income earners. That's still potentially a "discount" of 16.5% as a minimum for those on the top marginal tax rate.
- While not couched in the slick, attention grabbing words of the sales campaign advertising material, there are these "deals or discounts" in the tax system, if you know where to look. Strategies for end of financial year tax planning are outlined in this June newsletter.

With the end of the financial year looming, it's once again time to review tax effective strategies that may save you money. This newsletter outlines some basic tax facts and tips to assist you with your end of financial year tax planning.

It's never too early to prepare for tax time. The earlier you start thinking about your tax, the better the outcome should be for you. This is especially true if you need to implement strategies that may take time.

Interestingly enough, these strategies are on "sale" everyday of the financial year. So, while we can act for the end of one financial year, we can also put plans into place for the start of the next financial year, at this time of the year. After all if a strategy is worthwhile for the end of the financial year isn't it beneficial to put it in place for the whole year?

***Andrew Evans***

# Finance

## Federal Budget Highlights

- A three year temporary levy of 2% will be imposed on individuals' taxable income in excess of $180,000 pa, from the 1st of July 2014 until the 30th of June 2017.
- The Dependent Spouse Tax Offset (DSTO) will be abolished from the 1st of July 2014.
- The mature age worker tax offset will be abolished from the 1st of July 2014.
- The First Home Saver Accounts Scheme will be abolished from the 1st of July 2015.
- From the 1st of July 2014, taxpayers will receive a tax receipt, showing how and where their tax dollars were used.
- The income threshold at which students commence repayment of their Higher Education Loan Program (HELP) debts, will be reduced with effect from the 1st of July 2016.

In addition HELP debts will be indexed at a rate equivalent to the yield on 10-year Government bonds (up to a 6% maximum) instead of CPI from the 1st of June 2016.

Loan fees for undergraduate FEE-HELP and VET FEE-HELP will be abolished.

- Various reforms will be introduced to the pension system, including increasing the qualifying age for the Age Pension to 70 by the 1st of July 2035.
- Various reforms to the Family Tax Benefit (FTB) Part A and Part B payments will be introduced, including reducing the FTB Part B primary earner Income limit to $100,000 pa and changing certain eligibility requirements. These measures largely commence on the 1st of July 2015, with some transitional arrangements.
- The schedule for increasing the Superannuation Guarantee rate to 12% will be changed.
- Individuals will be given the option of withdrawing superannuation contributions in excess of the Non-concessional Contribution Cap made from the 1st of July 2013 and any associated earnings, with these earnings to be taxed at the individual's marginal tax rate.
- The income threshold for the Commonwealth Seniors Health Card will be indexed annually to the CPI, from the 20th of September 2014.Payments of the senior supplement will also cease after the June 2014 payment.
- The Government announced their commitment to reducing the company tax rate from its existing level of 30% to 28.5% from the 1st of July 2015.
- Maintaining SG Contributions at 9.5% for 3 years from the 1st of July 2014.

SUPERANNUATION

## I am over 65 - can I make a voluntary superannuation contribution?

Anyone over 65 years of age must pass a work test in order to make any type of contribution into superannuation. If you are aged 65 or over (but under the age of 75), you can make superannuation contributions, if you are at least gainfully employed on a part-time basis. You must work for at least 40 hours in a period of no more than 30 consecutive days in the financial year in which you plan to make a superannuation contribution.

There is no upper limit to the number of hours an individual can work; only a minimum limit. You can work more than 30 days and more than 40 hours, but an individual must, at a minimum, meet the 40 hours in a 30-day period requirement.

"Gainfully employed" is defined as being employed or self-employed for gain or reward in a business trade, profession, calling, occupation or employment.

If a client is retiring by age 65 and wanting to maximise after-tax contributions into superannuation, it is important to structure these contributions in the best way.

The "bring forward" provision ($450,000 over 3 years) can be triggered as long as you are under 65 anytime during the financial year. It's therefore important to bring the trigger provision forward, in the year in which you turn 65.

The following chart highlights how developing such a strategy can enable you to maximise the amount contributed by way of non-concessional superannuation contributions.

*If you are 59 years of age or older, as at the 30th of June 2013, then you are eligible for the higher concessional cap of $35,000 for the 2013/2014 year.*

**EXAMPLES**

| | Client 1 age 62 | Client 2 age 60 | Client 3 age 58 |
|---|---|---|---|
| 58 | | | $450,000 |
| 59 | | | - |
| 60 | | $450,000 | - |
| 61 | | - | $450,000 |
| 62 | $150,000 | - | |
| 63 | $150,000 | $150,000 | |
| 64 | $450,000 | $450,000 | $450,000 |
| 65 | - | - | - |
| 66 | - | | - |
| Total | $750,000 | $1,050,000 | $1,350,000 |

**CONCESSIONAL CONTRIBUTIONS**

| | | |
|---|---|---|
| Year 2013/14 | Aged 59 and over from 1 July 2013 | Aged 58 and under from 1 July 2013 |
| | $35,000.00 | $25,000.00 |
| Year 2014/15 | Aged 49 and over from 1 July 2014 | Aged 48 and under from 1 July 2014 |
| | $35,000.00 | $30,000.00 |

# End of Year Tax Planning Strategies

There are many ways in which entities can defer income, maximise deductions and take advantage of other tax planning initiatives to manage their taxable incomes. It should be remembered that in order to maximise these opportunities, the year-end tax planning process should start early. Leaving it to the last minute is not a great idea, as planning should happen at the start of the tax year, not at the end. However, if done correctly, end of financial year tax planning can provide a number of tax savings for entities.

The available strategies generally revolve around deferring income and bringing expenses forward.

## PREPAY YOUR INTEREST

A common tax-time strategy is to pre-pay interest on any loans for the next tax year prior to the 30th of June.

You can pre-pay if you have borrowed to invest using a margin loan or home equity loan, receiving a deduction on the interest payments, so the deduction applies this year, even if the interest is not due until next year. This is a useful strategy if you have an unusually high taxable income this year or if you are likely to go into a new tax bracket.

## INCOME PROTECTION

Two good things about income protection insurance:

1. It protects you against something you may not have thought about – loss of income in the event of accident or illness;
2. The premiums are usually tax deductible and, if you want to, you can usually prepay up to twelve months' worth.

## OTHER TAX PLANNING STRATEGIES

- Writing off bad debts, obsolete stock and plant before the 30th June 2014.
- Consider tax-deductible superannuation contributions. Further detail about contribution limits can be found in superannuation articles in this newsletter.
- Consider salary sacrificing any year-end bonus into superannuation.

Consideration also needs to be given to superannuation contribution limits if adopting this strategy.

- Review your motor vehicle use and where appropriate complete a new logbook. Motor vehicle claims are most accurately calculated using a logbook to determine business use. If you have not maintained a logbook, it is possible to use the cents per kilometre method, though claims are limited to 5,000 kilometres of travel. If your business travel exceeds 5,000 kilometres, it may be possible to claim one third of actual car expenses or 12% of the original value of the vehicle.
- Consider hiring a Quantity Surveyor to work out a depreciation schedule for any investment property before June 30. The cost will be tax deductible. Further, when the schedule has been drawn up, you will be in a position to claim depreciation on your property for many years to come.
- Capital gains on the disposal of an asset can be reduced by ensuring that all eligible items are included in the asset's cost base including capital improvements and incidental costs such as stamp duty, legal costs, commission fees, and by applying available capital losses.


- To write-off a debt as bad, it must generally have been brought to account as assessable income and you must have given up all hope, and more importantly, all action for recovery. Bad debts cannot be claimed by taxpayers who recognise income on a cash basis.
- Employers must ensure they have made sufficient superannuation contributions (currently 9.25%) for all of their employees on a quarterly basis throughout the financial year to avoid the risk of incurring a penalty under the Superannuation Guarantee Charge regime. Further, all superannuation contributions for the June quarter must be paid by the 30th June 2014 to be tax deductible. Book entries alone are not enough. Even if you miss the 30 June deadline for deductibility, you must make the payment by 28th July 2014 to avoid SGC penalties.

## FARM MANAGEMENT DEPOSITS (FMD'S)

- Primary producers should consider the benefits of FMD's. These deposits need to be in place by the 30th of June in order for a tax deduction to be claimed. These are to be discussed in more detail in this newsletter.

### Some Interesting Numbers

**$195,000** Average super fund balance for women. *Source: MLC*

**$300,000** Average super fund balance for men. *Source: MLC*

**38%** Of people say they could survive financially for just one month if they were unable to earn income. *Source: MLC*

# General

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RURAL FINANCE

## Farm Management Deposits (FMD's)

- The Farm Management Deposit (FMD) Scheme was introduced as a risk management tool to help farmers deal with uneven income. It allows farmers to store away excess cash in good years and withdraw cash in bad years in order to meet business costs, effectively smoothing out the ups and downs associated with the business of agriculture.
- Deposits are tax deductible, as long as the money is not withdrawn for 12 months, unless exceptional circumstances exist. When the money is withdrawn it is assessable for tax.
- In order to be eligible for FMD's you must be carrying on a primary production business and not earn more than $65,000 of non-primary production income in a financial year.
- There is a minimum of $1,000 per FMD deposit. An individual may only hold up to a maximum of $400,000 in their FMD accounts.
- The Government has introduced amendments to the FMD scheme intended to take effect on 1 July 2014. The non-primary production income threshold will be lifted from $65,000 to $100,000 increasing the number of primary producers that will be eligible. They are also improving the consolidation of existing FMD accounts by eliminating the tax consequences of withdrawing and immediately depositing FMD's.

HEALTH

## Aged Care Changes

Significant changes are planned for people accessing aged care (at home and residential aged care services) from 1 July 2014, including:

- The distinction between High Care and Low Care to be removed.
- Accommodation bonds and charges to be replaced by Refundable Accommodation Payment, Daily Accommodation Payment or a combination of both;
- The introduction of annual and lifetime caps on fees, and;
- Income Tested Daily Fee to be superseded by a Means Tested Daily Fee that takes into account both a resident's income and their assets.

These changes will only further complicate what can be a difficult time for families in understanding what information is to be provided to Centrelink or an aged care facility.

# IN BRIEF

## Year End Reminders

Has a notice of Intention to Claim a Superannuation Deduction being completed in respect of any concessional personal contributions?

If you are in receipt of superannuation pension income stream has the minimum annual payment been made?

If you have a family trust, will any potential beneficiaries turn 18 years, by the 30th of June? If so, do they have a Tax File Number?

If you are using the logbook method to claim motor vehicle expenses, record your car odometer readings on the 30th of June.

Note that from 1 July 2014, the Medicare Levy rate will increase from 1.5% to 2%.

The Superannuation Guarantee rate will increase from 9.25% to 9.5% on 1 July 2014. You may need to update payroll and accounting systems to apply the appropriate increase to the superannuation guarantee rate.

## SMSF Supervisory Levy for 2014

On lodgement of the 2013-14 Self Managed Superannuation Fund Annual Return (SAR). The superannuation fund will be required to pay 50% of the 2013-14 Supervisory Levy ($129) and 100% of the 2014-15 Supervisory Levy ($259). This will result in a total levy payable of $388.

## Congratulations

Congratulations to Gretel Dabovich OAM, who was inducted into the National Archery Hall of Fame on the 5th of April this year. Gretel has an impressive history and record of achievement in archery.

Notably, in 1981 she was the first person in the country to score 500 in any field round.

Gretel and her husband John have been involved in the administration side of the sport for more years than they care to remember. By any standards, their contributions to archery have been tireless.

Congratulations from all of us at RJC Evans & Co.