Tax Planning – Client Newsletter 2013

Income Tax Changes for 2012/13

A large number of tax changes apply in the 2012/13 income year. A brief summary is provided in this newsletter.

There may be some advantages in acting on some of these items before 30 June.

If you think any of these changes may affect you, please contact us for more details.

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General Year End Tax Planning Strategies

Business Income and Expenses

Subject to cash flow requirements, consider deferring income until after 30 June, especially if you expect lower income for 2013/14 compared to 2012/13.

Most businesses are taxed on income when it is invoiced. Some small businesses may be taxed only when income is received. Income from construction contracts is generally taxed when progress payments are invoiced or received.

Ensure that you have complied with the requirements to claim deduction in 2012/13:

- Bad debts must be written off in your accounts before 30 June
- Employer and/or self-employed superannuation contributions must be paid to, and received by, the super fund before 30 June and must be within the contributions cap (generally $25,000 per individual)
- Depreciation can be claimed for assets first used, or installed ready for use, before 30 June
- Small businesses (turnover less than $2 million) can claim expenses prepaid up to 12 months in advance – for larger businesses, this is generally limited to expenses below $1,000
- Wages paid to your spouse or family members must be reasonable for the work performed

Small businesses planning major purchases or replacements of capital equipment should contact us for advice. Careful timing of those transactions can result in substantial tax savings.

Review valuations of trading stock in the lead up to 30 June. Best practice is generally to value stock at the lower cost or market selling value. This may change if you expect a tax loss for 2012/13, or substantially higher income in 2013/14 compared to 2012/13.

Personal Income, Deductions and Tax Offsets

Subject to cash flow requirements, set term deposits to mature after 1 July, rather than before 30 June.

Consider realising capital losses if you have already realised capital gains on other assets during 2012/13. Conversely, consider realising capital gains if you have unrecouped capital losses, or you expect substantially higher income in 2013/14 compared to 2012/13.

If you expect lower income in 2013-14 due to retirement or any other reason, consider deferring income until after 1 July, when you will be in a lower tax bracket. If you are a primary producer and you expect a permanent reduction in income, consider withdrawing from the income averaging system.

Where possible, arrange for substantial out-of-pocket medical expenses to be grouped in the same financial year, and for all expenses to be invoiced in the name of the higher income earner. This may enable you to meet the annual threshold for the Net Medical Expenses Tax Offset.

Arrange for deductible donations to be grouped in the higher income year, if you expect substantially higher or lower income in 2013-14 compared to 2012-13. Make all donations in the name of the higher income earner.

If you plan to purchase income-producing assets, consider acquiring assets that will generate positive cash flow in the name of the lower income earner. Conversely, consider acquiring negatively geared assets in the name of the higher income earner.

Other Tax Planning Considerations

Contact us for advice if you have moved to or from Australia for an extended period. You may need to review your residency status for tax purposes. There are important tax consequences if you change residency.

Trustees of trusts should ensure that all necessary documentation is completed before 30 June, where you intend to stream capital gains or franked distributions to specific beneficiaries.

Family discretionary trusts may need to make a family trust election if the trust has unrecouped losses, or has beneficiaries whose total franking credits for the year may exceed $5,000.

Be sceptical of year-end tax shelter schemes. You should not enter a scheme without advice regarding both its tax consequences and commercial viability.

"Significant changes to the timing of deductions for plant and equipment for small businesses."

Income Tax Changes – Small Businesses

Depreciation and Low Cost Asset Deductions

There are significant changes to the timing of deductions for plant & equipment.

Items costing less than $6,500 excluding GST are now immediately deductible (up from $1,000).

Motor vehicles costing $6,500 or more qualify for an upfront deduction of $5,000 + 15% of the remaining amount.

Entrepreneurs Tax Offset Abolished

The Entrepreneurs Tax Offset provided a 25% reduction in income tax for small businesses with annual turnover less than $75,000.

This has been removed from the 2012/13 income year onwards. If you benefited from this tax offset in previous years, you may have an increased tax liability in 2012/13.

Income Tax Changes - Individuals

Tax-Free Threshold and Tax Rates

The tax-free threshold for 2012/13 for Australian resident individuals is $18,200 (up from $6,000). When combined with the Low Income Tax Offset, residents pay no tax on incomes below $20,542.

Higher thresholds apply to senior Australians and pensioners. For incomes above the thresholds, tax rates are slightly lower.

Non-resident individuals for the whole of 2012-13 do not get a tax-free threshold. Part-year residents get a partial threshold which is more generous than in previous years.

Means Testing of Private Health Insurance Rebate & Medicare Levy Surcharge

Tiered rates of private health insurance rebates now apply, based on your age and income.

If you claim the rebate as a premium reduction you are (or were) required to nominate your rate when renewing your policy. If you quoted the wrong rate, you will have an amount payable or refundable on your 2012-13 tax assessment.

If you don't hold private health insurance, tiered rates of Medicare levy surcharge apply based on your income

Multiple Changes to Personal Tax Offsets

A major restructure of personal tax offsets takes effect in 2012/13. If you have previously benefited from any of the following, you may have an increased tax liability for 2012/13:

- ***Net Medical Expenses Tax Offset*** – for incomes above $84,000 (singles) or $168,000 (couples and families), the offset is 10% of out-of-pocket expenses (down from 20%) and the threshold is now $5,000.
- ***The Mature Age Worker Tax Offset*** is now restricted to taxpayers born before 1 July 1957, there is no change if you were already eligible for the tax offset in the 2011-12 or earlier years.
- The ***Spouse Tax Offset*** is now limited to spouses born before 1 July 1952 (previously 1 July 1971).
- A new income test applies to the ***Employment Termination Payments Tax Offset***

Superannuation

Low income earners (adjusted taxable income below $37,000) may benefit from the Low Income Super Contribution (LISC) - a government superannuation payment equal to 15% of deductible contributions made by you or your employer, up to a maximum of $500. The LISC is additional to the existing super co-contribution. The co-contribution is now 50% of personal non-deductible contributions, up to a maximum of $500. The maximum eligible income has been reduced.

High income earners (adjusted taxable income above $300,000) will have the tax concession on contributions reduced from 30% to 15%. The government is still deciding whether the additional 15% tax will be collected from the individual or the superannuation fund.

If you have inadvertently made super contributions in excess of the maximum deductible amount (generally $25,000), you may be able to take the excess back out of your super fund. Multiple conditions apply, this should not be considered without advice.

The minimum pension payment for account based pensions in 2012-13 is again reduced by 25%.

Dad and Partner Day

Dad & Partner Pay (DAPP) complements the Paid Parental Leave scheme. It is a direct payment through Centrelink to eligible fathers and partners providing care for children born or adopted after 1 January 2013. Eligible fathers and partners can claim up to two weeks DAPP at the national minimum wage.

Removal of Capital Gains Discount for Non-Residents

The government will remove eligibility for the 50% discount on capital gains earned after 8 May 2012 by non-resident individuals and trusts on taxable Australian property, such as real estate and mining assets. You can preserve the discount for unrealised capital gains accrued up to 8 May 2012, if you have the asset valued as at that time.

"A major restructure of personal tax offsets takes effect in 2012/13, including the Net Medical Expenses Tax Offset, MAWTO, Spouse Tax Offset & ETP Tax Offset."

Companies - Loss Carry-Back

Companies that have paid tax in the past, that incur a loss in the 2012-13 income year, may be able to obtain a refund of some of the tax previously paid.

Multiple conditions apply.

Specific Industries or Activities

Industries and business activities affected by tax changes in 2012/13:

- Irrigation and water infrastructure
- Shipping
- Primary producers – seeding equipment
- Carbon pricing – holders of registered emissions units
- Employers of seasonal workers from Pacific islands or East Timor
- Consolidated groups
- Hire purchase – changes to GST credits

Please contact us to discuss any of these items that may impact your tax position for the 2012-2013 year.

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