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Tax Planning

Simply put, tax planning is the arrangement of a taxpayer's affairs so as to comply with the tax law at the lowest possible cost, and involves objectively assessing and actively managing tax risk. Common tax planning techniques are deferring the derivation of assessable income and applying techniques to bring forward deductions.

Deferring Income

- Income received in advance of services to be provided will generally not be assessable until the services are provided.
- Taxpayers who provide professional services may consider, in consultation with their clients, rendering accounts after 30 June to defer the income.
- Consider whether the requirements to be classified as a small business entity are satisfied to access various tax concessions such as the simpler depreciation rules and the simpler trading stock rules.
- Individuals operating personal services businesses should ensure that they satisfy the relevant test to be excluded from the Personal Services Income regime or seek a determination from the Commissioner.

Maximising Deductions

Business taxpayers

- Debtors should be reviewed prior to 30 June to identify and to write off any bad debts.
- Review the asset register to identify any low-cost and/or low-value assets that may be pooled to access an accelerated rate of depreciation.
- Write off any depreciating assets which are no longer being held for use because a deduction may be available.
- Review trading stock for obsolete stock for which a deduction is available.
- Employees' superannuation contributions should be paid before 30 June to obtain a deduction and to avoid the Superannuation Guarantee Charge.

Non-business taxpayers

- Outgoings incurred for managed investment schemes may be deductible.
- A recent High Court decision held a taxpayer deriving Youth Allowance was allowed a deduction for various self-education expenses.
- Assets costing $300 or less may qualify for an immediate deduction subject to certain conditions.
- A deduction for personal superannuation contribution is available where the 10% rule is satisfied.

Capital Gains Tax

- Consider deferring the disposal of shortly-held assets to access the CGT discount, where available.
- Individual taxpayers can consider contributing some or all of capital gain to their superannuation fund because a deduction may be available for personal superannuation contributions.
- Consider whether a rollover relief is available to defer any capital gains.

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- Consider the availability of the small business CGT concessions which can disregard, reduce or defer a capital gain arising from the disposal of an asset which has been used by an entity in the course of carrying on its business.

Companies

- The franking percentage for distributions to shareholders should be the same for each franking period to avoid a franking deficit tax.
- Loans, payments and debt forgiveness by private companies to their shareholders and associates should be repaid by the earlier of the due date for lodgment of the company's return for the year or the actual lodgment date. Alternatively, appropriate loan agreements should be in place.
- Companies may want to consider consolidating for tax purposes prior to year end to reduce compliance costs and take advantage of tax opportunities available as a result of the consolidated group being treated as a single entity for tax purposes.
- Companies should carefully consider whether any deductions are available for any carry forward tax losses, including analysing the continuity of ownership and same business tests.

Trusts

- Taxpayers should review trust deeds to determine how trust income is defined. This may have an impact on the trustee's tax planning.
- A recent High Court case confirmed that it is correct to apply the proportionate approach if the net income of a trust for tax purposes exceeds its accounting income.
- The Court also affirmed that the trustee can distribute capital gains as income of the trust for tax purposes if the trust deed permits it.
- Avoid retaining income in a trust because the income may be taxed at 46.5%.
- If a trust has an unpaid present entitlement to a corporate beneficiary, consideration should be given to paying out the entitlement by the earlier of the due date for the lodgment of the trust's income tax return for the year or the actual lodgment date to avoid possible tax implications.
- The Tax File Number withholding arrangements have been extended to closely held trusts (except were specifically excluded). The arrangements impose new reporting and payment requirements for trustees of trusts subject to the new provisions.

Superannuation

- A re-contribution strategy may produce tax benefits for taxpayers under age 60.
- Low-income earners (including self-employed persons) should consider making a personal superannuation contribution to qualify for the government superannuation co-contribution payment.
- For the 2010/11 income year, pensioners have the option to draw half of the year's minimum required pension amount.
- The reduction in the concessional contributions cap to $25,000 ($50,000 for those aged 50-74) since 1 July 2009 means that more individuals are now at risk of inadvertently breaching their annual contribution cap. A review of various arrangements involving superannuation (eg salary sacrifice) would be prudent.

Natural Disasters

Natural disasters such as the Queensland floods in early 2011 resulted in the tragic loss of lives and wreaked havoc and devastation. Many businesses and livelihoods suffered severe damage or loss. However, amongst the chaos, it is still important that business owners be aware of the tax implications that may arise from the destruction of their business assets and trading stock (including livestock).

Paid Parental Leave Scheme

The Federal Government's Paid Parental Leave scheme commenced on 1 January 2011. Under the scheme, eligible employees with a child born or adopted on or after 1 January 2011 can take 18 weeks of paid parental leave at the national minimum wage (currently $570 per week). The new scheme has a number of tax implications, which employers and recipients need to know.