Mogg Osborne Newsletter

June 2020

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1. Welcome to the End of Financial Year Edition of the Mogg Osborne Newsletter.

The COVID-19 pandemic has changed the way we live, work & play. Our Prime Minister says we are sailing into 'unchartered waters'. Some Businesses have closed, others reinvented themselves and our economy may never return to the way it once was. Some analysts are predicting many businesses will collapse and we will have unemployment of more than 10%.

Economic downturns produce change and some of it will be for the better. We might find workplaces more flexible with more staff working remotely from home.

This pandemic and lockdown came with minimal warning or time for planning. As we come to terms with our new way of life, it's time to move into the planning phase and develop a clear strategy and as the end of another financial year is fast approaching, we believe at Mogg Osborne that there is no better time to help you minimise your tax liability and put an action plan into place.

We would like to highlight some end of year tax planning opportunities but you need to act quickly and we encourage you to schedule a meeting as soon as possible to assess your options and the steps you need to take before the 30th June, 2020.

Be wary of tax refund scams that target people around tax time, be vigilant and remember, always exercise caution when clicking links or opening attachments in emails or SMS, even if they are from someone you know.

Important Dates

BEFORE 30 JUNE 2020

- Ensure your employee superannuation payments are received and allocated by your employees' super fund prior to 30 June 2020 to ensure a tax deduction for this year.

- Any payments made between 1 July 2020 and 28 July 2020 will count towards your Superannuation Guarantee requirement but will not be tax deductible until the next financial year

2. 2020 Tax Planning Tips

1. Deferral of Income
Defer sales until after 30th June.

2. Accelerate Expenses
Make tax deductible expense payments before 30th June. e.g. repairs, maintenance, gravel for driveways, stationery, and consumables.

3. Prepayments (SBE's)
Businesses with turnover less than 10 million may prepay leases, rent, insurance, rates, fuel, fertilizers, fodder, chemicals etc.

4. Wages to Children
Each child can be paid up to $20,370 pa in wages and pay no tax (if this is their only income). These must be "commercially realistic" and be paid before 30th June into the child's bank account.

5. Superannuation

Maximum Super contributions in limited circumstances may be greater than $25,000. Under the unused concessional cap carry forward rules if the 18/19 year total concessional contributions were less than $25,000 and the members 30/6/19 balance was less than $500,000 the unused amount can be added to this years $25,000.
Beware of division 293 tax where the total of concessional superannuation contributions and taxable income exceed $250,000.

6. Bad Debts
If you have bad debts or likely bad debts make sure these are actually removed from your debtor's records at 30th June.

7. Lease Plant & Equipment (SBE's Only)
If plant & equipment is required before 30th June, then finance by lease, with a large (say annual) lease payment due before 30th June.

8. Negative Gearing
This involves borrowing a sum of money to purchase assets (i.e. property, shares etc) and prepay the interest on the borrowing before 30th June.

9. Tax Schemes
Beware of quick fix tax schemes. At a very minimum the investment proposal should be accompanied with a Tax Office Product Ruling. The investment proposal should make some profit regardless of the tax benefits.

10. Travel Allowance
If you are employed by your own company or trust and you are required to travel overnight for business, then you should pay yourself a "Travel Allowance". No substantiation (i.e. receipts) is required if the claim does not exceed what the tax office considers reasonable (refer to TD 2019/11).
<u>Travel Allowance must be paid and must be realistic.</u>

11. Plant Costing Less Than $150,000
Small businesses can claim a 100% tax deduction for plant items costing:
Prior 12 March 2020 Less than $$30,000
After 12 March 2020 Less than $150,000
(And now Extended to 30 December 2020)

Backing Business Investment (BBI)
The Government is introducing a time limited 15-month investment incentive to support business investment and economic growth over the short-term, by accelerating depreciation deductions.
The key features of the incentive are:

- benefit — deduction of 50 per cent of the cost of an eligible asset on installation, with existing depreciation rules applying to the balance of the asset's cost;
- eligible businesses — businesses with aggregated turnover below $500 million; and
- eligible assets — new assets that can be depreciated under Division 40 of the Income Tax Assessment Act 1997 (i.e. plant, equipment and specified intangible assets, such as patents) acquired after announcement and first used or installed by 30 June 2021.

Does not apply to second-hand Division 40 assets, or buildings and other capital works depreciable under Division 43.

12. Capital Irrigation & Fencing Work (Primary Producers only) Any capital irrigation & fencing works are 100% deductible in the year of purchase.

13. Fodder Storage Assets

Fodder storage assets such as Hay sheds, Silos etc. are now an immediate Write-off.

14. Farm Management Deposits (FMD) (Primary Producers Only)

Funds are placed in an FMD with a bank and a tax deduction is gained for the deposit. The funds must be invested for a minimum of 12 months. When the funds are withdrawn, the amount of the withdrawal is included as assessable income and taxed in the year withdrawn. Total cap of contributions is $800,000.

15. FBT Exempt Items ('mainly used for business')

Employers are able to provide employees with a Laptop Computer and claim a full tax deduction. Also, PDA, Mobile Phone, Brief Case, Tools of Trade.

16. Obsolete Stock

When doing your stock take at year-end, consider valuing old/obsolete stock at its market value (possible zero!!)

17. Capital Gains Tax Strategies

- If you have capital gains and "unrealized" capital losses, consider realizing (selling) these losses to offset against the gains made
- Defer disposal to next year but remember the date of disposal for CGT is the date of contract signing NOT settlement date
- Defer a disposal to ensure the asset has been held for at least 12 months

18. Super Co Contribution

If your total income (taxable + fringe benefits) is less than $52,697 and you make a "personal contribution" into a complying superannuation fund then you may be eligible for the government co contribution. The maximum contribution is available when total income is less than $37,000. This also applies to Self Employed people and children earning an income. If you contribute $1,000 the government will contribute $500.

19. Minor Fringe Benefits

Fringe benefits given to employees on an irregular and infrequent basis costing less than $300 are deductible to the employer and FBT Exempt. This could include things such as concert tickets, clothing vouchers, gym subscriptions etc up to the value of $300

20. Income Tax Rates

Resident tax rates 2019–20

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $90,000	$3,572 plus 32.5c for each $1 over $37,000
$90,001 – $180,000	$20,797 plus 37c for each $1 over $90,000
$180,001 and over	$54,097 plus 45c for each $1 over $180,000

The above rates **do not** include the Medicare levy of 2%.

Other items to consider are;

- Life Insurance -consider paying via Super, see your financial adviser
- Prepay income Protection Insurance
- Home loan refinance – Debt Recycle Strategy

The advice provided in this fact sheet by Mogg Osborne Pty Ltd, is not to be relied upon without consultation with your Accountant. Please seek advice before implementing these strategies to ensure you use the correct strategy for your circumstances to result in the best possible outcome.

8 Most Common Errors in Income Tax Returns

- **Omitting Interest Income**
- **Incorrect or Omitted Dividend Imputation Credits**
- **Capital Gains/Losses are incorrect or omitted**
- **Understating Income**
- **Home Office Expenses**
- **Depreciation on Rental Property Fixtures and Fittings**
- **Borrowing Costs associated with Negative Gearing**
- **Depreciation on Income Production Buildings**

3. What's Changing on 1 July?

- Company tax rate reduces to 26% for base rate entities
- $150k instant asset write-off extended to 30 December 2020
- Cents per km rate for work-related car expenses increase to 72 cents
- Expected reforms to allow 66 and 67 years olds to make voluntary superannuation contributions without satisfying the work test. This reform is not yet law.
- Age limit for making superannuation contributions to your spouse increases from 69-74. This reform is not yet law.
- For those 67 and under, reforms will enable you to use the 'bring forward rule' to make up to three years of non-concessional contributions. That is, you can make non-concessional contributions of up to $300,000 from the 2020-21 financial year.

Super guarantee amnesty

The super guarantee (SG) amnesty is a one-off opportunity to correct past unpaid SG amounts. Employers have a six-month window, until 7 September 2020, to disclose, lodge and pay unpaid SG amounts for their employees. Employers can claim deductions and not incur administration charges or penalties during this amnesty.

It's important that you act on this opportunity now to get your obligations up to date. If you choose not to come forward during the amnesty, the costs will be significant.

To remain eligible, you must declare and pay your SG shortfalls and interest charges. Payments made during the amnesty can be claimed as tax deductions, and payment plans can be arranged.

Applications for the amnesty close at 11.59pm on 7 September 2020. Only payments made before 11.59pm on 7 September 2020 will be tax deductible.

After the amnesty ends the ATO's ability to remit penalties applied as a result of an audit is limited by law. This means shortfalls will have a minimum penalty of 100% applied but can be as much as 200%.

It's also important to be aware that the ATO's audit program will continue during the amnesty period.

Please contact your client manager to discuss your businesses individual circumstances further.

Working from Home During COVID-19

As COVID-19 continues to change our lives, you may now be working from home. To make it easier when claiming a deduction for the additional running costs you have incurred as a result of working from home, the ATO has announced a few things to help.

A simplified method has been introduced that allows you to claim a fixed rate of 80 cents per hour for all your running expenses, rather than having to calculate the additional amounts specifically.

This simplified method will be available to use from 1 March 2020 until 30 June 2020. It may be extended depending on when work patterns return to normal.

4.

Despite the current economic environment, the company tax rate will reduce to 26% for small and medium businesses from 1 July 2020.

The 1 July change is part of a larger progressive plan to reduce the company tax rate to 25% from 1 July 2021 and applies to base rate entities (BRE) - companies, corporate unit trusts, and public trading trusts - with an aggregated turnover of less than $50 million where 80% or less of the entity's turnover for the year is classified as base rate entity passive income. Larger companies will continue to pay the 30% rate.

	2018-19 and 2019-20	2020-21	2021-22
Base rate entities*	27.5%	26%	25%
Other corporate tax entities	30%	30%	30%

**aggregated turnover less than $50m and no more than 80% of the company's assessable income is base rate entity passive income.*

The reduction in the company tax rate will also change the maximum franking rate that applies to dividends paid by some base rate entities. The way the rules normally work is that if the company was classified as a base rate entity and was taxed at the lower corporate tax rate in the previous year then a lower maximum franking rate will apply to dividends paid in the current year. For example, a company that was classified as a BRE in the 2019 income year will generally be subject to a maximum franking rate of 27.5% on franked dividends paid in the 2020 income year. However, the maximum franking rate will normally be 26% for dividends paid in the 2021 income year if the company was a BRE in the 2020 income year.

Some companies may have franking account balances that have accumulated over time and will reflect prior company tax rates. It is important to consider how these credits can be utilised in an efficient manner. One strategy could be to bring forward the payment of dividends to utilise the current 27.5% franking rate before the company tax rate reduces to 26% if the cashflow of the company allows for it.

Increasing the Instant Asset Write-Off

From 12 March 2020 until 30 December 2020, the instant asset write-off threshold has jumped from $30,000 to $150,000. This means that an asset can be purchased & written off immediately, with the overall effect of either reducing or completely clearing your tax liability at June 30.
To be eligible must not exceed an aggregate turnover of $500 million.

Mogg Osborne take out the Coveted CLTC Corporate night Trophy

Winning Team pictured below from left; Sharra Beasley, Rod McLeod, Emma Skehan & Jonah Booth

End of Financial Year

GIVEAWAY

Mogg Osborne is giving you the chance to win $500 off your 2020/2021 Fees! All you need to do is pay your outstanding account in FULL before 30th June 2020 to go in the draw! Winner will be announced 5th July 2020

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Contact Us

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