Tax Planning Report

FOR

2020-2021 YEAR

LCA Accounting
Chartered Accountants

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1. ABOUT TAX PLANNING AND YOUR REPORT

Tax planning

You have the right to arrange your financial affairs to keep your tax to a minimum – this is often referred to as tax planning or tax-effective investing. Tax planning is legitimate when you do it within the letter and the spirit of the law.

What this report does

This tax planning report provides an outline of legal tax planning strategies that have the potential to save you tax if correctly implemented. It also details the implementation process, costs and issues to consider for each tax saving strategy.

What this report doesn't do

This tax planning report is not a comprehensive report covering all taxation issues that require consideration. This is because every taxpayer's circumstances are unique. Instead, this report provides you with a broad range of tax saving strategies for your consideration.

Take care

The objective of tax planning is to legally reduce the tax payable by a taxpayer in a given income year. This must be done in compliance with the taxation legislation and in compliance with the general anti-avoidance (Part IVA) legislation. Failure to comply with the Taxation Laws will result in the payment of the missing tax, penalties and interest.

2. SELECTED TAX PLANNING STRATEGIES

We have selected the following tax planning strategies that we believe may be applicable to your specific circumstances. Each strategy is explained below so you can understand the background and how the tax savings are generated. In addition, for each strategy we have estimated your average tax deduction if the strategy was implemented.

No 1. $150,000 INSTANT ASSET WRITE OFF

Small businesses (i.e. those with an annual turnover of less than $500M) can claim an immediate deduction for assets they purchase by 31st of December 2020 that cost less than $150,000 (net of GST).

The asset can be new or second hand purchased in Australia or overseas.

The only catch here is if you sell an asset you have previously depreciated in full, the item is fully taxable when you sell it.

This rule has been superseded by the changes to the accelerated depreciation that occurred on the 6th of October 2020 (see 3 below).

No 2. ACCELERATED DEPRECIATION

Small businesses (with an annual turnover of less than $500M) can claim 50% of the cost of assets they purchase from the 12th of March 2020 to the 30th June 2021. Existing depreciation rules apply to the remaining balance of the asset.

The asset cannot be second hand, it must be new purchased in Australia or overseas but does not include structural improvements (i.e. sheds).

This accelerated depreciation deduction will finish on the 30th June 2021.

There is no threshold limit to this rule (i.e. asset can costs over $150,000).

You can choose not to apply this rule on an asset by asset basis (see 4 below).

No 3. TEMPORARY FULL EXPENSING

Small businesses (with an annual turnover of less than $50M) can claim 100% of the cost of assets they purchase from the 6th of October 2020 to the 30th June 2022.

The asset can be new or second hand purchased in Australia or overseas but does not include structural improvements (i.e. sheds).

Small businesses (with an annual turnover of less than $10M) can claim 100% of their general pool balance from the 6th of October 2020 to the 30th June 2022.

This accelerated depreciation deduction will finish on the 30th June 2022.

There is no threshold limit to this rule (i.e. asset can costs over $150,000).

You can choose not to apply this rule on an asset by asset basis (see 4 below).

No 4. OPT OUT OF ACCELERATED DEPRECIATION

The new depreciation rules allow for a business to opt out from applying the accelerated depreciation on an asset by asset basis.

To do this a small business must first opt out from using the small business simplified depreciation rules. Doing so means the depreciation defaults back to the normal rules.

Making this election means that all assets purchased in the financial year will be outside the small business depreciation regime, allowing a decision to be made on which rule will apply to which asset.

The lock out rules that prevent a small business from re-entering the simplified depreciation regime for five years if they opt out has been suspended until June 2022, so there is no penalty for making this election.

No 5. LEASING (ALTERNATIVE TO OPTING OUT)

An alternative to opting out of the small business depreciation rules (see 4 above) would be to lease a piece of equipment instead of purchasing it. A lease means you don’t actually own the asset, instead you lease (rent) the asset from the legal owner of the asset.

Doing this will spread the cost of the asset over a number of years (five for example), similar to if it was depreciated.

The downside is the total GST can’t be claimed up front as is the case if the asset was purchased because it’s only the GST on the lease payments, as they are paid, that can be claimed.

No 6. PREPAY EXPENSES

If you are small business and you report on a cash basis in your tax return (that is you report income when you receive it and expenses when you pay them) it can be a quick tax deduction if you prepay some expenses you know you have coming in future months.

No 7. PUT SOME MONEY INTO SUPER

In consultation with your financial adviser you could consider putting up to $25,000 into superannuation and receive a full tax deduction for this.

The super fund will pay 15% tax on this but if this is less than the tax rate you are currently paying it is worthwhile. Be aware you cannot get the money back out of super until you retire or are over 65 years of age.

You also need to get a certificate from the superfund before your 2020 tax returns are lodged, declaring you are going to claim money put into super as a tax deduction or your claim will be disallowed by the ATO.

3. IMPLEMENTATION PROCESS AND COST

This section explains the step-by-step process to legally and effectively implement each strategy. Following the implementation process and ensuring the relevant paperwork is done is essential to obtain the tax savings. In addition for each strategy the estimated cost involved to implement are detailed.

No 1. $150,000 ASSET WRITE OFF

Purchase an asset you require in your business by the 31st of December 2020. The only cost is the cost of the asset you are purchasing.

No 2. ACCELERATED DEPRECIATION

Purchase an asset you require in your business and have it installed ready to use in your business by the 30th June 2021. The only cost is the cost of the asset you are purchasing.

No 3. TEMPORARY FULL EXPENSING

Purchase an asset you require in your business and have it installed ready to use in your business by the 30th June 2022. The only cost is the cost of the asset you are purchasing.

No 4. PREPAY EXPENSES

Organise the expenses you have coming up and evaluate if they are better paid prior to the 30th June 2021. This may mean you have to call your suppliers and ask them to bill you prior to the end of the month. There should be no additional cost to implement this strategy. The cost is your time to get this done as the expenses need to be paid either this year or next, it’s simply a matter of how organised you are.

No 5. PUT SOME MONEY INTO SUPER

You need to look at your cash flow and evaluate how much you can afford to deposit into your super fund. The cost is simply the amount you actually put into the super fund.

- You need to contact your fund and find out the correct B-Pay code to use to deposit the funds.
- Be sure to deposit it well before the 30th June.
- Get the form from the super fund to sign and return to us to say you are going to claim this amount as a tax deduction.

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