Tax Planning Report

FOR

2020-2021 YEAR

LCA Accounting
Chartered Accountants

Contents

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 objectives of tax planning is to legally manage 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This rule has been superseded by the changes to the accelerated depreciation that occurred on the 6th of October 2020 (see 3 below).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 discretion 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. INSTANT WRITE-OFF FOR FENCING ASSETS

Primary producers are able to claim an immediate deduction for fencing assets in the year the expense was incurred if the asset was purchased on or after 12 May 2015. However, stockyards, pens and portable fences are excluded from this provision.

No 7. INSTANT WRITE-OFF FOR FODDER STORAGE ASSETS

Primary producers are able to claim an immediate deduction for fodder storage assets in the year the expense was incurred if the asset was purchased on or after 19 August 2018.

The asset must be primarily used for the storage of food for livestock. Fodder storage assets include: silos, hay sheds, grain storage sheds, liquid feed supplement storage tanks and bins for storing dried grain.

No 8. INSTANT WRITE-OFF FOR WATER FACILITIES

Primary producers are able to claim an immediate deduction for water facilities in the year the expense was incurred if the asset was purchased on or after 12 May 2015.

The expense must have been incurred primarily for the purpose of conserving or conveying water for use in primary production. Swimming pools are not included as a water facility.

Water facilities include:

- Dams, earth and underground tanks
- Bores and wells
- Pipes and pumps
- Water towers and windmills
- Water tanks
- Irrigation channels

No 9. 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 10. 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 then 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.

No 11. FARM MANAGEMENT DEPOSITS – FMD'S

You can use FMD's to defer farming income from the current year to a future year.

You must be farming/share farming to be able to do this.

Your off farm income cannot exceed $100K each.

The maximum amount you can have in FMD's is $800K each & the money must stay in the FMD for at least one year.

The amount you deposit will come off the current year's taxable income but when you withdraw it from the FMD it will be added to that year's taxable income and you will pay tax at your current rate.
They can only be deposited in the individuals name and are taxable to that person when they are withdrawn.
The things to be aware of are:

1. If you die the amount is immediately fully taxable in that income year
2. If you leave farming the amount is immediately fully taxable in that year
3. They must be deposited well before the 30th June.

No 12. FORCED SALE OF LIVESTOCK

This rule allows the profit resulting from the forced sale or death of livestock to be either:

1. Spread, in equal instalments starting with the year of disposal or death, the profit form the forced sale of livestock over five years, or
2. Spread, in equal instalments starting with the year of disposal, the profit from the forced sale of livestock over 10 years if the sale is due to a disease control order in relation to bovine tuberculosis

Be aware that while this reduces the income declared for the current year it will, in most cases, increase the declarable income for the following four years as the deferred income is brought through.

No 13. SECOND WOOL CLIP

This election allows for the profit received on the sale of a second wool clip to be deferred to the next financial year.
You can make this election if the sheep had to be shorn a second time due to fire, flood or drought.
Proceeds for the purpose of this election include:

- Any amount received for the second wool clip
- Any amount received for wool that is from the previous year that was counted as stock on hand in that prior year

Be aware that while this reduces the income declared for the current year it will increase the declarable income for the following year by the amount deferred.

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. FENCING ASSETS

Purchase fencing assets 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 5. FODDER STORAGE ASSETS

Purchase fodder storage assets you require in your business and have the asset 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 6. WATER FACILITIES

Purchase water facility assets you require in your business and have the asset 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 7. 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 8. 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.

No 9. FMD

If you have funds available you will need to deposit the funds into the FMD prior to 30 June 2021 into an FMD account. These funds will need to remain in this account for at 12 months. The cost is the amount you put into the FMD.

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