Newsletter

GLOBE ACCOUNTING PTY LTD

"*Helping you achieve your business goals*"

JUNE 2015

Hello and welcome to our June 2015 Newsletter

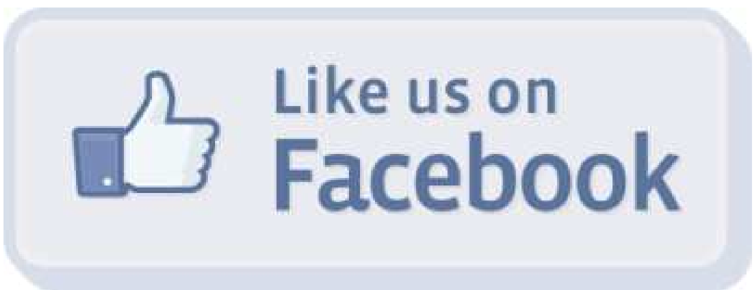
It doesn't seem so long ago that we were celebrating Christmas and welcoming in the New Year but another 6 months have passed and you should be well and truly getting your tax affairs in order before 30th June. As always, please call if you would like to discuss any of these items in more detail.

As the end of year fast approaches it is timely to make sure all areas of your business are contributing. This includes whether you have the right level and mix of stock and whether you are managing your debtors effectively. Do you monitor your stock movement regularly to identify products that are starting to sit around longer and those for which demand is increasing? Efficient stock management can be the difference between getting a sale and turning customers away, but holding stock comes at a cost, so don't invest in items that won't sell.

AGED DEBTORS

Most small businesses struggle at times with customers that don't pay their accounts promptly. We suffer from the same problem and while we are conscious that many people are struggling in the current economy, the reality is that money received from debtors is an important component of cashflow needed for wages, rent and other business costs.

In an effort to better manage our debtors, we will no longer be working for those who are not paying our accounts promptly. While we are certainly prepared to vary payment terms where necessary we will not work on files where the account remains overdue and a suitable payment arrangement is not in place.



Don't forget to like us on Facebook. We try to include interesting or relevant tax changes so that is another way to keep current.

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Why using the 20k Budget tax deduction might be the wrong decision

So, your business has a turnover under $2 million and you want to know how to use the $20,000 immediate tax deduction that's been all over the news?

Before you start spending, there are a few things you need to know.

Does your business make a profit?

Deductions are only useful to offset against tax. If your business makes a loss then a tax deduction is of limited benefit because you're not paying any tax. Losses can often be carried forward into future years but you lose the benefit of the immediate deduction.

Small businesses with a turnover of $2m or below make up 97.5% of all Australian businesses. The latest Australian Taxation Office (ATO) statistics show that well under half of these businesses paid net tax. That means that the $20,000 instant asset write-off is useful to less than half of the Australian small businesses targeted.

So, if your business makes a loss and you start spending to take advantage of the immediate deduction, all you are likely to do is to increase the size of your losses with no corresponding offset.

Immediate deduction not yet law

The $20,000 instant asset write-off is not yet law. The ATO only has the capacity to assess on current law not announcements. Don't forget that many of last year's Budget measures have not been enacted. While we think it is highly unlikely that the other political Parties will block this measure, there is always a small risk that things will change. So don't spend more than your business can afford.

Cashflow first!

Cashflow is more important than an immediate deduction. Assuming your business qualifies for the deduction, the most important consideration is your cashflow. If there are purchases and equipment that your business needs, that equipment has an immediate benefit to the business, and your cashflow supports the purchase, then go ahead and spend the money. The $20,000 immediate deduction applies as many times as you like so you can use it for multiple individual purchases.

But, your business still needs to fund the purchase for a period of time until you can claim the tax deduction and then, the deduction is only a portion of the purchase price.

Is your business eligible

To use the instant asset write-off, your business needs to be eligible. The first test is that you have to be a business – not just holding assets for investment purposes.

The second is the aggregated turnover of your business needs to be below $2m. Aggregated turnover is the annual turnover of the business plus the annual turnover of any "affiliates" or "connected entities". The aggregation rules are there to prevent businesses splitting their activities to access the concessions. Another entity is connected with you if:

- You control or are controlled by that entity; or
- Both you and that entity are controlled by the same third entity.

How do I make the most of the immediate deduction?

There are a few tricks to applying the instant asset-write off:

Second hand goods are ok

It does not matter if the asset you are buying for your business is new or second hand. So, you could still claim the deduction on say, second hand machinery you have bought.

What is not included

There are a number of assets that don't qualify for the instant asset write off as they have their own set of rules. These include horticultural plants, capital works (building construction costs etc.), assets leased to another party on a depreciating asset lease, etc.

Also, you need to be sure that there is a relationship between the asset purchased by the business and how the business generates income. For example, four big screen televisions are unlikely to be deductible for a plumbing business.

Assets must be ready to use

If you use the $20,000 immediate deduction, you have to start using the asset in the financial year you purchased it (or have it installed ready for use). This prevents business operators from stockpiling purchases and claiming tax deductions for goods they have no intention of using in the short term.

Business and personal use

Where you use an asset for mixed business and personal use, the tax deduction can only be claimed on the business percentage. So, if you buy an $18,000 second hand car and use it 80% for business and 20% for personal use, only $14,400 of the $18,000 can be claimed

What will change on 1 July 2015

For Business

- Small business tax cut - 1.5% for companies and 5% tax discount for unincorporated small businesses under $2m (capped at $1,000)*
- Employee share scheme rule changes to make the schemes more attractive particularly to start-ups
- 'Fly in fly out' and 'drive in drive out' (FIFO) workers will be excluded from the Zone Tax Offset (ZTO) where their normal residence is not within a 'zone'*
- Start-ups able to immediately deduct a range of professional expenses required to start up a business – such as professional, legal and accounting advice.*
- The way work related deductions for car expenses are calculated will change. The '12% of original value method' and the 'one third of actual expenses method' will be removed. The 'cents per kilometre method' will be modernised, replacing the three current engine size rates with one rate set at 66 cents per kilometre to apply for all cars.

Superannuation

- The terminally ill will be able to access super earlier*
- Employers with 20 employees or more must use SuperStream for employee contributions.

Individuals

- Changes to family tax benefits – income test changes, add on child payment removed, and changes to large family supplement.

* announced change not yet law.

Contributing to super - what you need to know

Topping up your superannuation just got a little less dangerous with new rules that allow excess non-concessional contributions to be refunded.

Before the change, a huge number of people were penalised by excess concessional contributions tax because they contributed over the allowable level of contributions. It was not uncommon to see $70,000 tax bills from what was a relatively small over contribution. And, there was very little you could do about it even if the contribution was not deliberate.

The new rules mean that members can have the excess contributions refunded to them PLUS 85% of the associated earnings on those amounts. The full earnings will then be included in your assessable income and taxed at your marginal tax rate. You will then be entitled to a non-refundable tax offset equal to 15% of the associated earnings. Simple right? Maybe not but it’s a lot easier to understand than a $70,000 tax bill for going even $1 above your contributions limit.

These new rules apply to excess non-concessional contributions made from the 2013/14 financial year onwards. So, if you were affected by excess contributions tax, something can be done about it.

Quote of the month

“You only live once, but if you do it right, once is enough.”
Mae West