Preparing for the end of financial year
what you need to know

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As we approach the end of the financial year, there are a number of smart strategies you could consider to help you streamline your finances and legitimately save on your tax bill.

Insurance premiums

Some insurance premiums, such as those for income protection insurance, are generally tax deductible as the proceeds in the event of a claim are taxable to you.

Work-related expenses

Don't forget to keep any receipts for work-related expenses such as uniforms, training courses and learning materials, as these may be deductible for tax purposes.

Prepay investment loan interest

If you have an investment loan, you can prepay up to 12-months' interest in advance. You may be able to claim a tax deduction for the prepayment in this financial year (subject to the relevant prepayment rules), further reducing your taxable income. This will work well if your total taxable income is going to be lower in the next financial year. Consult your tax agent to learn more.

Tax deductions for investment expenses

Expenses you incur while earning assessable investment income may be tax deductible. These expenses may include fees for financial advice, account-keeping and management fees and interest payments on investment loans. Claiming a tax deduction for these expenses could reduce your taxable income for the financial year, although not all expenses are immediately deductible. Your tax agent can help you determine what can be claimed.

Review ownership structure of investments

Transferring the ownership of your investments to your self-managed super fund (conditions apply) or to your spouse, who is on a lower marginal tax rate, may reduce the tax you pay on future investment income and capital gains. However, these transfers may have capital gains tax (CGT) implications so you should seek qualified tax and legal advice before proceeding.

Managing capital gains

It's important to assess if you have made any capital gains or losses from your investments. The most common way you make a capital gain (or capital loss) is by selling assets such as property, shares or managed fund investments. Managed funds also distribute capital gains which you must report in your tax return. The Australian CGT system is quite complex so it's important to consult with your tax agent.

Timing is everything

Some of these strategies can take time to plan and implement.

So stay ahead of the curve and get in touch with your tax agent soon to find out how you can plan to get the most out of this end of financial year.

EOFY tax strategies for small business

When times are tough, small businesses need all the help they can get. We take a look at the tax concessions that may be available to your small business and strategies you may be able to use to minimise your end of financial year tax liability.

What qualifies as a small business entity?

If your small business qualifies as a small business entity, you may be eligible to access a number of tax concessions that could help reduce the end of financial year tax liability for your business.

For most concessions, small businesses are those with an aggregated turnover of less than $10 million. To meet the definition, the business must satisfy one of the following criteria:

- aggregated turnover for the previous income year was less than $10 million
- aggregated turnover in the current income year is likely to be less than $10 million (note that this test cannot be used if business income in the last two years was greater than $2 million)
- aggregated turnover for the current income year is actually less than $10 million, calculated at the end of the income year.

However, a lower threshold applies for some concessions:

- For small business capital gains tax (CGT) provisions, aggregated turnover must be less than $2 million.
- For the unincorporated small business tax offset, aggregated turnover must be less than $5 million.

Accelerated depreciation

Small business are able to claim an immediate deduction on assets that cost less than $20,000. The

deduction applies to assets that small business start to use or install ready for use between 12 May 2015 and 30 June 2017.

Expense prepayments
Eligible businesses can claim an immediate deduction for prepaid expenses where the goods or services to be provided are for a period of 12 months or less and ends before the end of the next financial year.

Capital gains tax (CGT)
Small businesses may be eligible for a range of CGT concessions, which may provide substantial tax savings. These concessions are available to small business owners who have disposed of active assets in the current financial year, or who are looking to dispose of an active asset. To be eligible for these concessions, the business must qualify as a small business entity or have net assets of $6 million or less.

Pay as you go (PAYG) tax
Small businesses should review their PAYG instalments and notify the Australian Taxation Office (ATO) if the expected profit for this financial year is lower or higher than previous years, so instalments can be adjusted accordingly.

Lease repayments
Make repayments before 30 June to ensure a deduction can be claimed.

Office expenses
Purchase any necessary office equipment and expenses before the end of the financial year so you can claim a deduction, and perhaps utilise tax concessions on depreciating assets. Ensure you have kept receipts for purchases made throughout the year.

Superannuation
Ensure any superannuation contributions are made no later than 30 June so you can claim the deduction in this financial year.

Ensure that required super guarantee (SG) contributions for employees of the business are made by no later than 28 days after the end of the quarter, so that no super guarantee charge becomes payable to the ATO.

Log books
Check that all of your motor vehicle log books satisfy the substantiation requirements.

Changing tax rates for small businesses
The tax rate for small business companies, and the definition of a small business company to access these lower rates, has been gradually changed from 1 July 2016 as follows:

Financial year	Definition of small business company	Corporate tax rate
2016-17	Aggregated turnover less than $10 million	27.5%
2017-18	Aggregated turnover less than $25 million	27.5%
2018-19 to 2023-24	Aggregated turnover less than $50 million	27.5%
2024-25	Aggregated turnover less than $50 million	27%
2025-26	Aggregated turnover less than $50 million	26%
2026-27	Aggregated turnover less than $50 million	25%

In addition, the unincorporated small business tax offset of up to $1,000, which was 5% of eligible net business income prior to 1 July 2016, will be increased to 16% of eligible net business income by 2026-27.

EOFY superannuation tax strategies

As we approach the end of the financial year, there are a number of smart strategies you could consider to help you effectively reduce your tax liability.

Salary sacrifice
Currently, most employees receive super guarantee (SG) contributions from their employer of at least 9.5%[1] of their salary. Adding to these contributions directly from your gross (pre-tax) salary can be an easy and tax-effective way to top up your super. This is called salary sacrifice.

Some of the benefits of salary sacrifice are:

- It's simple, automatic and consistent.
- You do not pay income tax on salary sacrifice contributions to super (up to certain limits). Your super contributions are generally taxed at 15%[2], which may represent a significant tax saving, particularly if you are on the highest marginal tax rate of 45% plus applicable levies.
- By making a salary sacrifice contribution, you can reduce your taxable income.
- The difference in taxation may mean more money is available to invest in super than if you were to receive the money as after-tax income and then invest it.
- Future earnings on contributions made to super are concessionally taxed at a maximum of 15%.

You should check with your employer first to see whether salary sacrifice arrangements are available and that adopting a salary sacrifice strategy will not reduce the amount of SG contributions your employer pays on your behalf.

Personal tax-deductible contributions
If you are substantially self-employed or earning passive income only, you may be able to claim a tax deduction for contributions you make to super. While still subject to the concessional contributions cap, this strategy may prove timely if you have made a considerable capital gain from the sale of a property or shares – as your deductible contribution to your super fund may help to offset your assessable capital gain. Not only could it reduce your marginal tax rate, it may also boost your super balance for retirement.

Note that if you are not able to claim your super contributions as a tax deduction (for example, your income for the year is too low), they will be treated as after-tax (non-concessional) contributions.

Currently, to be eligible to claim a tax deduction for personal super contributions, you must not have been an employee during the financial year, or less than 10% of your total income must have been from employment. From 1 July 2017, this requirement is removed so that all eligible contributors can claim a tax deduction for their personal contributions.

Take advantage of the government co-contribution
To encourage you to save for your retirement, if your total income[3] is $36,021 pa or less and you make a $1,000 after-tax contribution to super, the Government will contribute $500 to your super.

The co-contribution is calculated as 50% of your after tax contribution, but the maximum $500 government co-contribution also reduces by 3.33 cents for every dollar you earn over $36,021 pa and ceases once your total income reaches $51,021 pa.

When determining eligibility for the Government co-contribution, earnings that are salary sacrificed to super and reportable fringe benefits come under the definition of total income. If you fit within the income thresholds outlined above, and satisfy some other conditions, contributing to your super from your after-tax salary before the end of the financial year may be a great way to top up your super, and get an extra boost from the Government.

Your financial adviser can give you the latest updates and more information on this opportunity.

Split super contributions with your spouse
If you have a spouse, you are permitted to transfer certain super contributions from the previous financial year over to the super account of your partner. If the receiving spouse is over preservation age at the time of the split request, he or she must declare that they are not retired. Splits cannot be done once the receiving spouse turns 65. You can do this every year, once the financial year has ended. Up to 85% of taxable (concessional) contributions such as SG, salary sacrifice and personal tax-deductible contributions made to super can be transferred.

There are several reasons for considering splitting super with your spouse:

- There may be potential tax advantages to withdrawing the money from two super accounts rather than one (between preservation age and age 59).
- Transferring contributions from the younger spouse to the older spouse could enable you to access more retirement money earlier.
- Transferring money from the older spouse to the younger spouse could enable the older spouse to receive more Age Pension by delaying the date at which their super becomes an assessable asset.
- Splitting superannuation monies does not count towards the receiving spouse's contributions cap.[4]
- To help equalise balances between you and your spouse. From 1 July 2017, a $1.6 million ‘transfer balance cap’ applies to limit the total amount of super savings you can use to commence retirement phase income streams (where earnings on assets are tax free). Because this cap applies on an individual basis, equalising super balances between members of a couple can ensure that both members stay below this cap.

Super splitting is not offered by all funds, so you will need to check whether your fund offers this feature.

The benefits of spouse contribution tax offsets
Another potential tax concession is a spouse contribution tax offset. This strategy may be available if you make after tax contributions directly to your spouse’s super account – these are known as eligible spouse contributions. To take advantage of this strategy, your spouse will need to be under age 65 or aged 65 to 69 and have satisfied a work test during the financial year. You can open a super account in your spouse’s name and make contributions to that account from your after-tax pay. You can also make these contributions to your spouse’s existing super account.

If your spouse’s assessable income, reportable employer super contributions and reportable fringe benefits are under $10,800 pa[5], you will receive an 18% tax offset on the first $3,000 you contribute on their behalf, up to $540 pa. The offset operates on a sliding scale and phases out to zero once their income exceeds $13,800 pa.

A word on contributions caps

When considering any super strategy, it's important to assess how much you are contributing to super in any one year. The Government has set annual limits – known as contributions caps.

The contributions caps for the 2016-17 financial year are:

- $30,000 (indexed) for pre-tax (concessional) contributions if aged under 49 at 30 June 2016, or $35,000 (non-indexed) if aged 49 or over at 30 June 2016.
- $180,000 for after-tax (non-concessional) contributions or $540,000 over a three-year bring forward period if you are under 65 any time during the financial year you make the contribution.

Contributions caps change substantially from 1 July 2017, as follows:

- The pre-tax (concessional) contributions cap reduces to $25,000, regardless of age.
- The after-tax (non-concessional) contributions cap reduces from $180,000 to $100,000. The three year bring forward will still be available for eligible people but will reduce to $300,000. In addition:
    - Your non-concessional cap reduces to Nil once your total super balance (just before the start of the year) is $1.6 million or more.
    - The cap you have available under the bring forward rule will reduce once your total super balance (just before the start of the year) is $1.4 million or more.
    - If you trigger a bring forward rule in 2015-16 or 2016-17 but do not use all of your cap by 30 June 2017, transitional rules will reduce the remaining cap you have available.

Contribution eligibility

In order to make voluntary super contributions, at the time of the contribution, you must be:

- Under age 65
- Aged 65 to 74 and have been employed for gain or reward for 40 hours in a 30 consecutive day period during the financial year
    - This includes up to 28 days after the end of the month in which you turn 75
    - Spouse contributions cannot be made where the receiving spouse is aged 70 or over

Voluntary contributions generally cannot be made once you have reached age 75.

Mini super checklist

- Do I have a record of all my super accounts and contributions?
- Does my employer allow salary sacrifice contributions?
- What are my current contributions for this financial year?
- Can I make a spouse contribution?
- Did I make a contribution last year that I could 'super split' this financial year?

Talk to your financial adviser they can help simplify your end of financial year preparations and ensure you maximise the tax benefits.

Preparing for 1 July 2017 super income stream changes

From 1 July, the following two important super changes may impact any super income streams you currently have:

- Earnings within your transition to retirement income stream accounts (currently tax free) will become taxable at up to 15%.
- A $1.6 million cap will be introduced on the total amount you can move to retirement phase income streams (for example account based pensions).

If these changes are likely to impact you, speak to your financial adviser as soon as possible as action may be required prior to 1 July 2017 to avoid penalties and to optimise your situation under the new rules.

1 The SG rate will be 9.5% until end of financial year 2020/21. After that it will increase gradually each financial year by 0.5% until it reaches 12% on 1 July 2025.

2 Individuals with income greater than $300,000 pay tax on some or all non-excessive concessional contributions at 30%. This income threshold will reduce to $250,000 from 1 July 2017.

3 Total income equals assessable income plus reportable fringe benefits plus reportable employer super contributions, less business deduction (other than for work related expenses or personal super contributions).

4 The original contribution made does count towards the members' concessional contributions cap.

5 From 1 July 2017, the spouse income threshold for the spouse tax offset will increase to $37,000. A partial offset may apply where the low income spouse earns less than $40,000 pa.

6 Contributions made in excess of your concessional contributions cap from 1 July 2013 are effectively taxed at your marginal tax rate, plus an interest rate charge. You are also able to withdraw up to 85% of any excess concessional contributions made from 1 July 2013. For non-concessional contributions, excess contributions made on or after 1 July 2013 are able to be withdrawn along with associated earnings. If withdrawn, the excess non-concessional contributions are not subject to any tax and the associated earnings are taxed at your marginal tax rate. If not withdrawn, excess non-concessional contributions are taxed at up to 49% (47% from 1 July 2017)

Speak to us for more information

If you have any questions, please speak to your Count Financial Adviser.

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