



“Making Your
Business Count”

REPORTS



JUNE 2007 REPORT BUSINESS TAX PLANNING BRIEF

1. SUPERANNUATION

- For Superannuation to be deductible for the year ended 30 June 2007 it must be paid before 30 June 2007. One way of increasing tax deductions for the year is paying superannuation for employees for the quarter ended 30 June 2007 before 30 June 2007.
- For the year ended 30 June 2007, superannuation deduction is limited to the following aged-based limits: -

Your age	Maximum tax deduction – 2007 Year
Under 35	\$15,260
35 – 49	\$42,385
50 +	\$105,113

- This will change in the year ended 30 June 2008. Refer to “June 2007 Report – Superannuation Changes”.
- In respect of a sole trader or partnership, you can only claim the first \$5,000 plus 75% of contributions over \$5,000 and your aged based limits.
- There is a once only \$1,000,000 non-concessional (non-deductible) superannuation contribution allowable until 30 June 2007. (Refer to “June 2007 Report – Superannuation Changes”). There is no tax deduction for these contributions and no tax will be payable by the superannuation fund on these contributions.
- **Superannuation Co-contribution** – For people earning < \$28,000 per year, the government will match at the rate of \$1.50 for every dollar you contribute up to \$1,500 in total. The payment reduces by 5 cents for every dollar you earn over





\$28,000 and phases out at total income levels of \$58,000 per year.

2. BAD DEBTS

- Bad debts must be written off as bad before the year ended 30 June 2007 in order to claim a tax deduction for bad debts in the year ended 30 June 2007. Written evidence is satisfactory.

3. PREPAYMENTS

- You can claim a deduction for payment in advance for the following amounts: -
 - Less than \$1,000
 - Required to be made by law or under a court order
 - Under a contract of service (eg salary and wages).
 - **STS Taxpayers** can claim an immediate deduction for prepayments provided that the eligible service period does not exceed 12 months and ends no later than 30 June 2008. For eg for STS payers, these include lease payments, rent, business travel insurance, subscriptions.

4. EMPLOYEE BONUSES

- Employee bonuses are deductible if incurred by the year ended 30 June 2008. For eg if there is documentary evidence of an intention to pay the bonus.

5. DEPRECIATION

- **STS Taxpayers** – Can claim an immediate deduction for assets costing less than \$1,000 (Excluding GST).
- **Non STS tax payers** - can scrap or sell depreciable assets for less than their written down value before 30 June 2007 to realise a tax deduction loss.

6. CAPITAL GAINS TAX

- **Date of disposal** – Date in which entering contract not the date of settlement.
- If you are expecting a large capital gain, you may consider deferring the sale until after 30 June 2007 because of the lower tax rates announced in the 2007 budget.
- If you are expecting a large capital gain, you may defer the capital gain in a year in which you also expect to have large capital losses as capital losses can be offset against capital gains.
- **Trusts & Individuals** – Have access to 50% CGT discount. Companies do not have access to this.





7. TRADING STOCK

- **STS Taxpayers** – No requirement to account for changes in the value of trading stock or do stocktakes at the end of the income year where the change in value between opening and closing stock is less than A\$5,000.
- **Obsolete Stock** – Can be written off by year ended 30 June 2007 if the stock can't be sold.
- **Measurement of stock** – Can be measured at cost, market value or replacement value.

8. DIVIDENDS

- **Franking Credits** – Companies should determine if there are sufficient franking credits available to pay a franked dividend. Companies may consider paying the June 2007 quarterly PAYG Instalment before 30 June 2007 in order to obtain further franking credits.
- **Benchmarking rules** – Dividends paid within the same franking period must be franked to the same percentage. Any variation in franking percentage on dividends paid within the same franking period will result in an under or over-franking penalty.

9. PRIVATE COMPANY AND TRUST LOANS

- **Division 7A** – Division 7A treats loans to shareholders as dividends deemed to be paid by a private company (if certain conditions are met). Also included in this division are loans made by trusts where the trust has unpaid distribution to private company at 30 June 2007.

If the loan is paid by the earlier of the lodgement or the due date for lodgement of the company's income tax return for the year, there will be no dividend. If there is a loan agreement, where the shareholder pays interest at benchmark rate (market rates) and the agreement is in writing there will also be no deemed dividend.

10. DEFINITIONS

- **Simplified Tax System – (STS)** – designed to provide an easier means of compliance for certain eligible taxpayers. To be eligible you must have an STS average turnover of less than \$1 million and depreciating assets of less than \$3 million at the end of the year (For the year ended 30 June 2007).

