

CPA Australia's tax tips for year ended 30 June 2010

The following tax tips, whilst not exhaustive, are designed to provide businesses, employees, investors and the self-employed with a headline list of key issues that they should consider in preparing their income tax returns for the year ended 30 June 2010.

Please note that the information supplied below is to be used as a guide only. The tips are accurate as of 12 June 2010. You should speak to a registered tax agent about your specific circumstances.

1. Defer income and accelerate deductions

Personal income tax rates will drop again for the 2010/11 year, and whenever this occurs an opportunity presents itself to make some tax savings provided you can either:

- defer assessable income, or
- bring forward deductions, provided action is taken by 30 June 2010.

It may be particularly important to take advantage of the opportunity afforded by these latest tax cuts, as there are currently no further cuts flagged on the horizon for the next few years at least. It makes sense, therefore, to explore such opportunities fully this year while they are still available.

The changes to note (2010/11) are as follows:

- the 15% threshold is increased by \$2,000 (from \$35,000 to \$37,000), and
- the current 38% rate that applies to the \$80,001 to \$180,000 income bracket will be reduced to 37%
- the low income tax offset is also increased so that those who earn less than \$30,000 will get their first \$16,000 tax free.

2. Claim all work related deductions

While the task of compiling all your work-related deductions may appear daunting especially given the need to collate all the required tax invoices and receipts for any significant claims, taking the time to understand what 'work-related expenses' are potentially deductible can save you money.

Also, consider billing all your expenses to a single credit or debit card so you can more readily locate the relevant costs and any associated receipts.

Where you don't have the necessary receipts on hand you can still claim up to \$300 of work-related expenses provided the claims relate to outgoings you necessarily incurred in your job or business.

A deduction for laundry costs is allowable where the relevant clothing is protective clothing, a compulsory uniform, a non-compulsory uniform or certain occupation-specific clothing. Moreover, laundry claims of up to \$150 do not have to be substantiated even if your total income tax deductions exceed \$300.

Self-education expenses can be claimed provided the study is directly related to either maintaining or improving your current occupational skills or it is likely to increase your income from your current employment. By contrast if the study is designed to enable you to obtain new qualifications in a different field then the expenses incurred are not allowable.

One key issue in calculating such costs is to disallow \$250 of self-education expenses as being non-allowable. You may wish to attribute such costs to amounts which are not ordinarily deductible such as child care costs.

Typical self-education expenses include, amongst others, course fees, textbooks, stationary, student union fees and the depreciation of assets such as computers and printers. However, it should be noted that any Higher Education Contributions Scheme (HECS) or Higher Education Loan Program (HELP) repayments are not deductible.

3. Identify eligible home office expenses

Where part of your home has been set aside primarily or exclusively for the purpose of doing work then the costs associated with this such as heating, cooling, lighting and the depreciation of your office equipment or professional library may be an allowable deduction. To claim for this purpose, you must have kept a diary for at least 4 weeks of the hours you worked from home. This amount is then used to work out your total hours worked for the year and a deduction claimed at the rate of \$0.26 cents per hour.

However, no deduction is available for occupancy expenses such as mortgage interest, rent, insurance and rates unless you are self-employed and conduct a business from your home.

4. Maximise motor vehicle deductions

Where you have used your motor vehicle for work-related travel, and your claim for kilometres travelled for the year does not exceed 5,000 kilometres, you can claim a deduction for your car expenses on a cents per kilometre basis to the extent you have used your car for work. The allowable rate for such claims changes annually so you may need to obtain this year's rate from the Australian Taxation Office (ATO) website at www.ato.gov.au. Any such work-related travel claims must be based on reasonable estimates.

Alternatively, if you have used your car for a significant amount of work related travel then you may be able to claim a deduction for your total car running expenses to the extent you have used it for work. However, such claims are only available where you have the required log book, odometer readings and receipts.

On the other hand, where business travel exceeds 5,000 km, it may be possible to claim one-third of actual car expenses or 12 per cent of the original value of the vehicle without a log book.

In this light, you may wish to compare which of the above four methods gives you the maximum deduction.

Work related travel includes travel between two places of work or employment, or travel to shifting places of employment. It may also be available where you have to carry bulky tools or equipment with you to work. It does not, however, include direct travel between a person's home and a place of work.

But note that penalties and fines are not allowable.

5. Temporary investment allowance

Business owners really should also ensure that they claim the temporary investment allowance of 50% of the cost of any new depreciating assets principally used in a business that were purchased for a cost of \$1,000 or more before 31 December 2009 and installed ready for use by 30 June 2010. You should consult your tax agent as to whether you satisfy all the eligibility conditions for the allowance.

6. Deduct any eligible depreciation deductions

Where specific tools or equipment are used for work by an employee, but the cost of these assets is not met or reimbursed by the employer, then they may be depreciable under the capital allowances regime. Some items can be claimed in full if they cost \$300 or less, or will last less than three years, and are mainly used to gain assessable income other than business income.

These items can include tools, calculators, briefcases, computer equipment and technical books purchased by an employee, or minor items of plant purchased by a landlord. Any deduction claimed should be reduced to the extent it is used for private purposes, but it doesn't need to be pro-rated if it was acquired part way through the year and was wholly used in deriving salary and wage income.

7. Your rental property deductions

Landlords can claim deductions for a range of expenses such as advertising, bank charges, body corporate fees, cleaning, council rates, electricity and gas, gardening, insurance, loan interest, land tax, lease preparation expenses, legal costs, pest control, postage and stationary, property agent fees and commissions, repairs, secretarial and bookkeeping fees, telephone charges and water rates. You may also be able to write off the cost of certain buildings, depreciating assets and borrowing costs over time.

Care should be taken if you own a rental property in preparing your 2009/10 income tax return as the ATO is concerned that rental income is being under-reported and rental deductions over-claimed and this will again be an area of close scrutiny by the ATO.

8. Claim relevant non-work related deductions

The fees you pay a registered tax agent to prepare your return or to manage your tax affairs are allowable in the year the fee is paid.

Also ongoing management fees paid to a financial planner may be deductible where the advice relates to income producing assets, but check with your CPA first.

Also bank charges and any interest payments on funds used to acquire shares and other income producing assets/investments are generally deductible.

9. Optimise your tax offsets

Tax offsets directly reduce your tax payable and can add up to a sizeable amount, so it pays to know all the offsets you are entitled to. Eligibility for offsets will generally depend on your income level, family circumstances and other relevant conditions associated with particular offsets or rebates.

Common tax offsets/rebates include the dependant spouse rebate, low-income tax offset, mature-aged worker rebate, senior Australian tax offset, medical expenses offset, private health insurance offset and the offset for superannuation contributions made on behalf of a low income spouse.

There is a 25 per cent entrepreneur's tax offset if a sole trader has elected to enter the small business entity system and your business income for the year does not exceed \$50,000. The rebate reduces for every dollar on business income in excess of \$50,000 and phases out completely where income exceeds \$75,000.

In addition, the offset is now also means tested and will phase out at 20 cents for every \$1 of income over specified thresholds of adjusted taxable income being \$70,000 for single taxpayers and \$120,000 for families. In this context, adjusted taxable income is the total of taxable income, reportable fringe benefits total, reportable superannuation contributions and total net investment loss for the 2009/10 tax year.

An education tax offset is available for eligible families (those in receipt of Family Tax Benefit A) for 50% of the cost of items such as educational software, home computers and associated costs, home internet connections, laptop computers, printers, school texts, stationary and trade tools used in school. The maximum amount of the rebate is \$375 for each child in primary school and \$750 for each child in secondary school.

10. Consider tax effective superannuation contributions

A self-employed person will be able to claim their contributions to a complying superannuation fund as fully tax deductible up to the age of 75. However, such contributions will not be deductible if 10% or more of a person's assessable income or reportable fringe benefits is attributable to their employment as an employee. Employers can also claim deductions for superannuation contributions made on behalf of their employees provided the employee is under 75.

Any excess contributions made by the self-employed or by an employer in respect of an employee will be taxed in the superannuation fund at a rate of 46.5 per cent rather than 15 per cent. The excess contribution limit for the 2009/10 tax year is \$25,000 or \$50,000 for those aged 50 or more as at 30 June 2010.

11. Utilising capital losses

Investors should be aware of the rules relating to the utilisation of capital losses such as those arising from the disposal of investments. Any such loss can be offset against any current capital gains you may have made, or be carried forward indefinitely to be applied against any future capital gains. Further, a capital loss on an investment can be applied against any other capital gain other than those disallowed under special rules relating to gains on collectables such as artworks and antiques and certain personal use assets. However, its nice to know that a loss is still worth something.

12. Private use of company owned assets

Under proposed amendments effective from 1 July 2009, shareholders and associates (e.g. family members) will be deemed to have received a dividend at 30 June 2010 where a related private company has provided a company owned asset for the private use of that shareholder or associate.

These amendments are intended to apply to such things as the private use of real estate, a car or a yacht which is provided at either a free or discounted rate. Liabilities of this type will be triggered from the time the asset is first privately used by that person, and covers all days during the year in which the asset is not available for use by the company.

The amount of the dividend is the market value of such use less any consideration paid. However, the deemed dividend will not arise if the annual value of the benefits received was less than \$300, the private usage would otherwise have been allowable as a once-only deduction or where certain dwellings are provided for private use by the company.

If you think this applies to you, then you should discuss the matter with your accountant.

13. New rules re unpaid present entitlements and trusts

The ATO has issued Taxation Ruling TR2010/3 which sets out their view that an unpaid present entitlement (UPE) owed by a trust to a related private company beneficiary which arises on or after 16 December 2009 will be regarded as a deemed dividend where the trustee and the company are controlled by the same family group.

The deemed dividend will arise at the end of the year after the year in which the distribution is made. This is different to prior years, where the making of such unpaid distributions did not have adverse tax implications. Draft Practice Statement PS LA 3362 provides certain administrative concessions so that no deemed dividend arises where the funds are held on a sub-trust and special rules are met so that there is an agreed return on those funds as well as a repayment of the principal funds.

Alternatively, the trustee would be required to pay the distribution by the due date of lodgement for the private company's tax return for the year after the year in which the distribution is made or convert that distribution into a complying Division 7A loan by that date.

Accordingly, if the distribution is taken to be made at 30 June 2010 a deemed dividend will arise on 30 June 2011 which must be paid or converted into a loan before 15 May 2012.

Trustees and beneficiaries should consult their CPA tax agent on the full ramifications of these changes especially as the Draft Practice Statement has yet to be finalised and the ruling may have some limited retrospective application in certain circumstances.

14. No more trust income streaming from 2010

The ATO has advised in Practice Statement PS LA 2010/1 that trustees will no longer be able to stream different classes of income (e.g. capital gains) to different beneficiaries from 1 July 2010.

Further, from that date any distribution of a capital gain will have to be included in an income beneficiary's share of net income even where the amount is actually distributed as part of trust accounting income to separate capital beneficiaries.

Accordingly, the year ended 30 June 2010 will be the last year in which a trustee will have the potential flexibility to stream trust net income and capital gains.

Taxpayers may therefore wish to consult their CPA tax agent on maximising their tax position especially as the ATO has flagged that it will consult further with CPA Australia and the profession on possible further changes to the taxation of trusts.

Consult your CPA adviser

For more detailed advice on their particular circumstances, taxpayers should consult their CPA tax agent or check the ATO's website (www.ato.gov.au) for further details.

