Business Checklist for Financial Year 2020
(Sole Traders, Companies, Trusts, Partnerships)

hanrahans

TAX PLANNING TIPS

Pay employee superannuation guarantee contributions by 30 June

A reminder that 30 June 2020 is on a Tuesday this year.
You may wish to pay the June quarter super guarantee contributions by 30 June if you want to claim a tax deduction in the current financial year. The next quarterly superannuation guarantee payment is due on 28 July 2020.

However, some employers choose to make the payment early to bring forward the tax deduction instead of waiting another 12 months.

You need to ensure the funds are **received** by the superfunds on or before 30 June, therefore to ensure the super fund receives the contributions pre 30 June, we recommend that all contributions (including employer contributions via the Super Clearing Houses and the ATO's Super Clearing House) contributions are paid no later than **Monday 22 June 2020**.

Directors' fees and employee bonuses

Any expected directors' fees and employee bonuses may be deductible for the current financial year if you have 'definitely committed' to the payment of a quantified amount by 30 June, even if the actual payment occurs after 30 June.

To be 'definitely committed' the directors need to pass a properly authorised resolution. The accrued directors' fees and bonuses need to be paid within a time period after year.

New ATO rules are in place which require appropriate PAYG Withholding to be deducted from these bonus payments once made in July 2020.

Write-off bad debts

In order to be regarded as a bad debt, you need to have previously bought the amount to account as assessable income, and have given up all attempts to recover the debt. It is important you have document to show you have written off the debt by 30 June, such as removing the debt from your debtor ledger and/or recording your decision in minutes.

Review your asset register and scrap any obsolete plant

Check to see if obsolete plant and equipment is sitting on your depreciation schedule. Rather than depreciating a small amount each year, if the plant has become obsolete, scrap it before 30 June for a deduction of the whole carrying value in the current financial year. Let us know of your decisions.

Bring forward repairs, consumables, trade gifts or donations

To claim a deduction for the current financial year, consider paying for any required repairs, replenishing consumable supplies, making trade gifts or donations before 30 June.

Minimum loan repayments & declare dividends

Review shareholder loan accounts and make minimum loan repayments towards a private company.

Sometimes it may be necessary to declare dividends in order to pay the required minimum yearly repayment.

Certain cash repayments may not be effective if it is reasonable to conclude there is an intention to borrow a similar amount or more at the time of the repayment.

Timing of resolutions for Trusts

Trustees (or directors of a trustee company) need to consider and decide on the distributions they plan to make by 30 June 2020 at the latest (the trust deed may actually require this to be done earlier).

Decisions made by the trustees should be documented in writing, preferably by 30 June 2020.

If valid resolutions are not in place by 30 June 2020, the risk is that the taxable income of the trust will be assessed in the hands of a default beneficiary (if the trust deed provides for this) or the trustee (in which case the highest marginal rate of tax would normally apply.)

Raise management fees between entities by 30 June

Commercially reasonable management fees can be charged between related entities and may be deductible in the current financial year if raised by 30 June. Ensure they are commercially reasonable and documentation is in place to support the transactions.

Personal Services Income (PSI) ie. earning income from your personal skills and effort

If your business earns income from personal services you may not be entitled to a range of tax deductions that would normally be available to businesses unless certain tests can be satisfied.

Even if the rules haven’t affected you in the past, this is an annual test and you might be caught if your circumstances have changed.

Realise capital losses and reduce capital gains

Consider if it’s appropriate to neutralise the tax effect of any capital gains you have made during the year by realising capital losses – that is, sell the asset and lock in the capital loss. These need to be genuine transactions to be effective for tax purposes.

RECENT TAX CHANGES IMPACTING BUSINESS

Company tax rate reduction

From 1 July 2020, the company tax rate for base rate entities (BRE) will reduce to 26%.

	2018-19 and 2019-20	2020-21	2021-22
Base rate entities*	27.5%	26%	25%
Other corporate tax entities	30%	30%	30%

**A base rate entity is a company with an aggregated turnover of less than $50m and no more than 80% of the company's assessable income from passive investment income.*

Utilising franking credits

As per the above chart, the tax rate reduction will also change the maximum allowable franking credit applied to dividends paid from companies.

The franking credit allowed on dividends will generally be based on the company's applicable tax rate of the prior financial year to when the dividend is paid.

For example, the maximum franking rate for a BRE that pays a franked dividend in the 2020 year is 27.5%. However, in 2021, the maximum franking rate will be 26%.

If your company has accumulated a large franking account balance over time it is important to consider how these credits can be utilised in an efficient manner.

One strategy could be to bring forward the payment of dividends to utilise the current 27.5% franking rate before the company tax rate reduces to 26% if the cash flow of the company allows for it.

Living with JobKeeper

The JobKeeper $1,500 per fortnight per employee subsidy is paid in arrears to businesses that have experienced a downturn of 30% or more (50% for businesses with turnover of $1bn or more).

The purpose of the scheme is to keep workers employed and ensure there is a viable workforce on the other side of the pandemic.

At present, JobKeeper is set to continue until 27 September 2020.

And for businesses, JobKeeper's decline in turnover is a once only test. If the eligibility criteria were met at the time of applying for JobKeeper, a business can continue claiming the subsidy assuming the other eligibility criteria for them and the individual employees are met.

One of our most asked questions about the decline in turnover test is 'what if I got it wrong?' Eligibility is generally based on an estimate of the negative impact of the pandemic on an individual business's turnover.

There is no clawback if you got it wrong as long as you can prove the basis for your eligibility going into the scheme.

For those that, in hindsight, did not meet the decline in turnover test, you need to ensure you have your paperwork ready to prove your position if the ATO requests it.

You will need to show how you calculated the decline in turnover test and how you came to your assessment of your expected decline, for example, a trend of cancelled orders, or trade conditions at that time.

Tax treatment of Government grants and relief

During the pandemic, bushfires and floods, grants and loans have been available to help business and individuals through the crisis. The way these grants and loans are taxed will vary.

If you carry on a business and the payment relates to your continuing business activities, then it is likely to be included in your assessable income for income tax purposes.

This position is likely to be different where the payment was made to enable you to commence a new business or cease carrying on a business.

Grants **will generally be assessable income** unless a law has been passed to specifically exclude the grant or loan from tax.

For example, the PAYGW Cash Flow Boost (CFB) and the Special Disaster Grant for the bushfires were made non-assessable and non-exempt income (meaning it is not taxable.)

The Service NSW small business COVID-19 Support grant to cover unavoidable business overheads of up to $10,000 is however regarded as assessable income and liable to tax.

When it comes to GST treatment, the key issue is whether the grant is consideration for a supply. That is, was the business expected to deliver something for the grant?

The following government payments are not received as consideration for a supply and therefore not subject to GST or included in your GST turnover:

- JobKeeper payment
- PAYGW Cash Flow Boost payment
- Payment of grants to an entity where the entity has no binding obligations to do anything or does not provide goods and services in return for the monies.

Single touch payroll (STP) and updates on extension for closely held employees

STP is the direct reporting of salary and wages, PAYG withholding and superannuation contribution information direct to the ATO with the requirement to use standard business reporting-enabled software to report pay cycle.

Online Accounting Software packages such as Xero, MYOB, Sage or QuickBooks with Payroll have the ATO reporting functionality already included – it just needs to be setup.

Closely Held Employee rules refers to the many small businesses who have 'close family members as employees' such as family member employees, directors or shareholders of a company, and beneficiaries of a trust.

Small businesses with 19 or fewer employees and that had closely held employees were provided a one year extension to comply and were to start reporting these closely held employees through single touch payroll (STP) from 1 July 2020.

However, in response to the governments COVID-19 pandemic support measures the ATO has granted an extension until 1 July 2021.

Your business can start voluntarily reporting these closely held employees, and many may have already done so to access JobKeeper payments, but it is not a requirement until 1 July 2021.

All other employees should continue to be reported through STP and once you start STP reporting, you need to keep reporting each pay cycle.

At year end there are some changes to how you close off the financial year wages using your accounting system and STP reporting.

Speak to Hanrahans if you need assistance, or want to discuss file upgrade options or to find out more regarding employer responsibilities.

Superannuation guarantee amnesty

The government have passed this once off amnesty in an effort to get all businesses to pay all outstanding superannuation to their employees.

The amnesty provides a one-off opportunity to voluntarily disclose historical non-compliance with the superannuation guarantee rules and pay outstanding superannuation guarantee charge amounts.

To qualify for the amnesty, employers must voluntarily disclose the outstanding SG to the Tax Commissioner. You either pay the full amount owing, or if the business cannot pay the full amount, enter into a payment plan with the ATO.

7 September 2020 is the last day for employers to take advantage of the superannuation guarantee (SG) amnesty. Following this date, the ATO have suggested that the compliance and penalty regime will intensify for failure to comply with superannuation guarantee rules.

Business Checklist for Financial Year 2020
(Sole Traders, Companies, Trusts, Partnerships)

Immediate Asset Purchase Write off for SBE's is now available for assets costing up to $150,000.

The ability for small business entities to claim an immediate deduction for asset purchases has been extended to at least 31 December 2020. So if you don't take advantage of this concession before 30 June 2020, you still have 6 months to access this instant write off. A summary of the several recent changes made to this program of purchase threshold limits:

Instant asset write-off thresholds	Small Business*	Medium business**	Large business***
1 Jul 2018 - 28 Jan 2019	$20,000	-	-
29 Jan 2019 - 2 Apr 2019	$25,000	-	-
2 Apr 2019 - 12 Mar 2020	$30,000	$30,000	-
12 Mar 2020 – 31 Dec 2020	**$150,000**	**$150,000**	**$150,000**

** Small Business is aggregated turnover under $10 million   ** Medium Business aggregated turnover under $50 million*

Accelerated depreciation deductions

Businesses with a turnover of less than $500 million can access an accelerated 50% depreciation deduction for assets that don't qualify for an immediate deduction for a limited period of time.

This incentive is only available in relation to:

- **New depreciable assets**
- Acquired on or after 12 March 2020 that are first used or installed ready for use for a taxable purpose by 30 June 2021.

It does not apply to second-hand assets or buildings and other capital works expenditure.

The rules also won't apply if the business entered into a contract to acquire the asset before 12 March 2020.

Businesses are able to deduct 50% of the cost of a new asset in the first year.

They can then also claim a further deduction in that year by applying the normal depreciation rules to the balance of the cost of the asset.

Accelerated depreciation deductions apply from 12 March 2020 until 30 June 2021. This will bring forward deductions that would otherwise be claimed in later years.

For example, let's assume that a business purchases a new truck for $250,000 in July 2020.
In the FY21 tax return the business would claim an upfront deduction of $125,000. The business would also claim a further deduction for the depreciation on the balance of the cost. If the business is a small business entity and using the simplified depreciation rules, this would mean an additional deduction of $18,750 (i.e., 15% x $125,000).

The total deduction in the FY21 tax return would be $143,750.

Without the introduction of accelerated depreciation the business would have claimed a deduction of $37,500 (i.e., 15% x $250,000). A direct Tax Saving in FY21 of $27,627.

Directors at risk of personal liability for company's GST liabilities

The director penalty regime enables the ATO to recover amounts owed by a company for unpaid PAYG withholding amounts and superannuation guarantee liabilities from the directors or former directors.

From 1 April 2020, the existing director penalty regime was expanded to include GST, luxury car tax and wine equalisation tax liabilities.

The expansion of this regime means that company directors, regardless of whether they are passively or actively involved, are at risk of being held personally liable for a large portion of a company's estimated liabilities.

Directors are under a general obligation to ensure the company either satisfies its tax liabilities, or recognising the company may be insolvent, goes into administration or is wound up.

Resigning as a director after the event has no impact as the obligation attaches to the individual directors equally.

If the Commissioner issues a penalty notice, the director becomes personally liable at that point.

There is a grace period for new directors, but they can become liable for obligations that arose before they became a director.

Strict timeframes are in place for the issuing of notices by the Commissioner and the required responses from the individual. If you receive a director penalty notice, or if you are concerned that you are at risk of receiving a notice, please contact us immediately.

Reporting payments to contractors

The taxable payments reporting system requires businesses in certain industries to report payments they make to contractors (individually and the total for the year) to the ATO.

'Payment' means any form of consideration including non-cash benefits and constructive payments.

Taxable payments reporting is now required for the following industries:

- Building and construction services
- Cleaning services
- Courier services
- Road freight services
- Information technology (IT) services

- Security, investigation or surveillance services
- Mixed services (providing one or more of the services listed above)

The annual report is due by 28 August 2020. Your Accounting Software should be able to manage the reporting as long as the processing has been entered effectively throughout the year.

Please speak with us if you need assistance to set up your accounting file to correctly report contractor details and or help to lodge this annual reporting obligation.

IMPENDING CHANGES

Division 7A reforms

Division 7A captures situations where shareholders access company profits in the form of loans, payments or forgiven debts. If certain steps are not taken, such as placing the 'payment' under a complying loan agreement, these amounts are treated as a deemed unfranked dividend and taxable at the taxpayer's marginal tax rate.

Sweeping reforms to the operation of Division 7A were to take effect from 1 July 2020. However, these reforms have not been enacted. Given the extent of the proposed changes and the uncertainty created by COVID-19, we expect the timing of these reforms to be revised in the October federal budget.