YOUR Knowledge

Never ending story – more tax change from 1 January

Normally we wouldn't advise you of potential tax changes until we were absolutely certain that they were going to happen. But this potential tax change is a bit different because if the change goes ahead, your decisions pre and post 1 January could mean several thousand dollars.

Late last month the Government released draft legislation repealing the Minerals Resource Rent Tax - or mining tax as most of us know it. While the repeal of the mining tax is not likely to have a direct application to many small business and individual taxpayers, the Government also plans to abolish a number of other tax measures that will have a broader impact.

The changes are not certain until they are passed by Parliament but there appears to be limited opposition to the repeal of the mining tax and the other associated tax measures. Here's what will change if and when the measures are repealed:

Immediate deductions reduced for small business entities (SBEs)
Currently, small business entities (generally entities with a turnover of less than $2m) can claim an immediate deduction for depreciating assets costing less than $6,500. For example, if a SBE buys a $4,000 computer, the business can claim an immediate deduction in the same financial year for the full $4,000. From 1 January 2014 however, this threshold will drop to $1,000. So, if there are assets you need for your business and cash flow allows, you have until 31 December 2013 to buy the assets you need and use them or install them ready for use.

$5,000 deduction for motor vehicles scrapped
Thinking of buying a motor vehicle for your small business? From 1 January 2014, the $5,000 immediate deduction for motor vehicles purchased by small business entities will be removed. Once again, if you are thinking of buying a motor vehicle for your business, you have until 31 December 2013 if you want to claim the $5,000 immediate deduction.

Loss carry-back measures
The loss carry-back measures were only recently introduced and enable companies to offset tax they have paid in previous years against current year losses. The repeal of this measure however means that companies will only be able to use the loss carry-back measures for the 2013 income year. The rules will be repealed from the start of the 2014 income year. Companies that are late lodging their 2013 tax returns will still be able to utilise the loss carry-back rules for the 2013 income year. *Continued over the page….*

The hidden danger of salary sacrifice agreements

If you haven't reviewed your salary sacrifice arrangement for a while then two recent changes should have spurred you into action.

The first is the increase to the super guarantee (SG) rate from 1 July 2013. While the increase from 9% to 9.25% doesn't sound like a lot, it can have a big impact. The problem is the concessional contribution caps.

Take the example of 55 year old Wilbur who earns $160,000 per annum. Before 1 July, Wilbur's employer paid the SG amount of 9% ($14,400) and Wilbur salary sacrificed $10,600 to use his full concessional cap. From 1 July, Wilbur will need to reduce the amount he sacrifices by $400 or breach his cap.

It's such a minor amount but without this change the ATO will include the excess $400 contribution in Wilbur's assessable income, which will then be taxed at Wilbur's marginal tax rate with additional penalty interest charges applying. If you have a salary sacrifice arrangement in place and are close to your contribution cap, then the increase to the SG might be enough for you to breach your limits.

The second change relates to the increase in the concessional contributions cap. This financial year, the concessional contributions cap is $35,000 for those 59 and over on 30 June 2013 and $25,000 for everyone else. The higher cap will allow an additional $10,000 to be salary sacrificed into super for those eligible.

Quote of the month
"If you can't explain it simply, you don't understand it well enough."
Albert Einstein

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No surprises this Christmas

Boom time or down time, every business needs to manage the Christmas period. Managing the holiday season well can make a big difference to how your business is positioned in the New Year. Here are our top tips:

The scrooge approach to outstanding debtors

Put extra effort into following up debtors. The closer we get to Christmas the more difficult it will be to collect the debt. If you leave these debtors until January, it will be almost impossible to collect the cash. Traditionally, February is one of the worst cash flow months for business. If you are not successful now, it might be some time before you actually get paid.

Staff management

Staffing is a major cost for many businesses and can run as high as 70% of expenditure. It's essential that you review your staff rosters and only have the staff available who are absolutely necessary to manage anticipated trading levels. Encourage staff to take their holidays over this period so that they are available during peak trading periods. You can't assume that it will be obvious to everyone who works in the business that a slow trading period equals less staff required. Many team members will have an expectation of continuity if you have not said anything.

And yes, a business can enforce a temporary close down. You can require staff to take leave during a down time but you cannot force them to take unpaid leave. So, take a look now to see if any staff will not have enough leave to cover a forced close down. If they don't, you need to ensure your leave policy allows for team members to go into negative leave.

Stock management

Even very large businesses often have too much cash tied up in inventory. Keep your cash as liquid as possible and don't tie it up unnecessarily in stock. Drive down stock in the lead up to Christmas and only order the bare minimum to meet your requirements over the holiday season. But don't forget to plan for your New Year requirements to ensure that your suppliers have the stock you need available when you need it in the New Year. The number one reason why most Australian's buy online is because they could not find what they needed when they visited a retailer or supplier.

Discount only if you have to

A business with a 30% gross profit margin that offers a 25% discount requires a 500% increase in sales volume just to maintain the same position. In almost all cases that's just not going to happen. The result generally is the business will be trading below its break-even point and generating losses. Most SMEs simply can't survive for any period of time trading at a loss. You have to compete but think very carefully about what it is you are offering the market.

Never ending story – more tax change from 1 January *continued*

Superannuation guarantee increase slowed

As you know, the superannuation guarantee (SG) percentage was due to increase gradually from 1 July 2013 until July 2019 when the rate reaches 12%. The new measures slow the increase. The SG percentage will be kept at 9.25% for the 2014, 2015 and 2016 financial years. From 1 July 2016, the SG percentage will then rise to 9.5% and then increase by half a percentage point each year until it reaches 12% for years starting on or after 1 July 2021.

Low income super contribution

The Government plans to remove the rules that currently allow the contributions tax paid on concessional contributions for individuals earning up to $37,000 to be returned. The changes will apply to concessional contributions for financial years starting on or after 1 July 2013.

Income support bonus (ISB)

The Government will remove the ISB which is currently paid twice a year to certain social security recipients. The next instalment of the payment is due to be paid to recipients in March 2014 unless the rules are repealed by then.

Schoolkids bonus (SKB)

This tax-free bonus payment will also be removed. The next instalment of the SKB would be in respect of the "test day" occurring on 1 January 2014 unless the rules are repealed by then.

Geothermal energy exploration deductions

Expenditure incurred after 30 June 2014 on geothermal energy exploration and prospecting will no longer be immediately deductible.

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