

# Tax Planning for Year End 30 June 2002

30 May 2002



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This report has been put together to help you save tax this year. Remember that June 30 falls on a Sunday this year and you will need to act by Friday June 28.

## Simplified Tax System

From 1 July 2001 the Simplified Tax System ("STS") was implemented to change the way taxation law will apply to an eligible STS taxpayer. Adoption of STS is optional and the eligibility criteria are as follows:

- ◆ The taxpayer carries on a business in that year;
- ◆ Has an STS average turnover of less than \$1,000,000;
- ◆ Has depreciating assets of less than \$3,000,000.

The STS operates as follows:

- ◆ Cash accounting basis is to be used for income and deductions;
- ◆ A 12-month prepayment rule is introduced. STS taxpayers will be able to claim a full deduction for payments that relate to no more than 12 months;
- ◆ Simplified trading stock method to be used with no need to account for changes in the value of trading stock provided that the value of trading stock does not change by more than \$5,000;
- ◆ Uses a modified depreciation regime that means immediate write off for assets costing less than \$1,000. Assets with effective life of less than 25 years are pooled and are written off at 15% in the year of purchase and 30% thereafter. Assets with effective life of greater than 25 years are written off at 2.5% in the year of purchase and 5% thereafter.

For non-STs businesses the following applies:

- ◆ Depreciation: Assets under \$1000 cannot be written off immediately. They will need to be pooled together and written off at 18.75% in the year of purchase and 37.5% thereafter. For all other assets, depreciation will be based on effective life of the asset.
- ◆ Trading stock: A stock take is required.
- ◆ Prepayment: Only 40% is allowable as a deduction in the current year.



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## Maximise Deductible Super Contribution

The biggest opportunity for tax planning is superannuation. If you are anticipating a large tax bill this year, consider contributing more into superannuation before June 30.

The maximum deductible contributions (MDC) are aged-based and are as follows:

- ◆ \$11,912 if you are under 35;
- ◆ \$33,087 if aged between 35 and 49
- ◆ and \$82,054 if you are 50 or over.

Taxpayers with "income" (taxable income plus super contributions) over \$85,242 will be subject to a tax surcharge on deductible contributions, up to a maximum surcharge of 15% for those with \$103,507 "income".

Note: Employers who wish to claim a tax deduction for the superannuation contributions this financial year, must make the payment **by Friday June 28**. Note the last day to avoid paying the non-deductible super guarantee levy is 28 July.

## Bad Debts

Review your debtors before 30 June. To claim a tax deduction, bad debts must be written off before year-end.

## Fixed Assets

Review your depreciation schedules and write off obsolete and unwanted plant & equipment.

## Stock

Stock with no value should be disposed of prior to year-end. All obsolete stock should be written down to a "realistic value" to avoid the over valuation of stock. It is essential to physically count stock on hand at 30 June and stock values should be net of GST.

## Staff Bonuses

Calculate and pay staff bonuses before the end of June, and not in July.

## Crystallise losses to minimise CGT

Clients with a poorly performing asset / investment(s) should consider selling in order to crystallise a capital loss. The capital loss can then be used to offset any current year capital gains as well as any distributed capital gains from managed funds.

If the asset was a business seek our advice.

## Contribute to Super to minimise Capital Gains Tax (CGT)

Business or Self-Employed clients that have sold an asset and realised a capital gain in the current financial year should consider making a deductible contribution to super. By claiming a tax deduction for an amount, which offsets the assessable capital gain, it is possible to reduce and even eliminate CGT.

## Maximise rebatable Spouse Contributions

Clients with a low income or non-working spouse should consider making super contributions on their behalf. If the spouse's assessable income is less than \$10,800, they will be entitled to a tax rebate of up to \$540.

## Tax Effective Investments

This time of year there are a number of tax effective investments / schemes that are being promoted. Ensure that the promoter has a valid product ruling from the Tax Office. It is also important to consider not only the tax benefits, but also the risks associated with the investment before making a decision.

**Please contact us before you commit to one of these investments.**

**If you are in doubt on any of the above issues, please call us to discuss your own personal circumstances.**