

INTRODUCTION

Tax planning is the activities taken to minimise tax liabilities to ensure all available allowances, deductions, exclusions and exemptions are working together in the most tax effective manner to reduce the total tax bill.

IMPORTANCE

Tax planning strategies are typically employed to help a business achieve their financial and business goals. The benefits of tax planning are:

- Lowering the amount of taxable income
- Reducing the tax rate
- Allowing greater control of when taxes get paid
- Better management of your cash flow
- Eliminating nasty tax surprises

ESTIMATED TAX POSITION

We have reviewed your projected financial position for the period 1 July 2018 to 30 June 2019, and we have outlined below recommendations to legally reduce your tax.

The recommendations and estimated tax positions we have outlined in this report reflect the tax laws that are current as at the date of this report.

We estimate that you will save \$19,800 of tax if you implement all of our recommendations before 30 June 2019. After implementing these strategies, we estimate your **marginal tax rate on your income to be 27.5%**

BACKGROUND TO TAX PLANNING

Everyone wants to increase their tax refund (or reduce their tax payable). We're here to help you to do this!

Tax saving recommendations generally involve you spending money on "something" which creates for you a tax deduction. The "something" you spend your money on could be an expense, an asset, or an investment related payment (like superannuation or prepaid interest on an investment loan).

However – please don't fall into a common trap of spending money just to get a tax deduction. You only save tax based on the marginal tax rate proportion on the amount you spend, **not** the full amount you spend. For example, to save tax, you generally need to spend money. If you earn \$90,000 and your marginal tax rate is 39%, this means that if you spend \$100 to get a tax deduction, you then get \$39 back as a tax deduction, and you have spent \$61 to buy the tax deduction.

OUR RECOMMENDATIONS

The purpose of this report is to provide a recommendation of tax saving strategies for you to consider for the 2019 tax year. This report is not intended to be our final advice to you, but instead is a starting point in educating you on some potential opportunities for you to maximise your tax savings for the current 2019 year.

THE KEY IS TO ACT NOW

To achieve the results outlined in this report, you need to implement our recommendations as soon as possible before 30 June 2019.

ESTIMATED BUSINESS INCOME

YEAR ENDED 30 JUNE 2019

\$

Net Profit as per Interim Financials	\$330,020
<u>Add:</u> Allowance for Revenue (April - June)	\$280,000
	\$610,020
<u>Less:</u> Allowance for Expenses (April - June)	\$150,020
<u>Estimated Net Income from Business</u>	<u>\$460,000</u>

Less Proposed Tax Planning Strategies

Removal of Accounts Receivable	\$0
Removal of Accounts Payable	\$0
Bring Forward Expenses	\$0
Prepayment of Expenses	\$0
Defer Invoices	\$40,000
Purchase of Equipment up to \$30,000	\$30,000
One Year Lease	\$0
Pay Employee Superannuation by 25th June 2019	\$2,000
Superannuation Contribution	\$0
<u>Total Net Tax Planning Strategies</u>	<u>\$72,000</u>

Estimated Taxable Income after Tax Planning Strategies**\$388,000**

ESTIMATED TAX POSITION BEFORE TAX PLANNING STRATEGIES

YEAR ENDED 30 JUNE 2019

<u>Estimated Income 2018-19</u>	Dynamic Rigging Hire
Net Income from Business	\$460,000
Wages & Salaries	\$0
Interest, Dividends & Managed Funds	\$0
Rental Property	\$0
Capital Gains	\$0
Other Income	\$0
Total Income	\$460,000
<u>Less:</u> Estimated Deductions	\$0
<u>Estimated Taxable Income</u>	\$460,000
<u>Estimated Tax Payable</u>	
Tax on Taxable Income	\$126,500
<u>Add:</u> Other Taxes (Including HELP)	\$0
<u>Less:</u> Tax Paid on Wages	\$0
<u>Less:</u> PAYG Tax Instalments (Including June)	-\$146,409
<u>Less:</u> Other Tax Credits	\$0
Estimated Tax Refund	-\$19,909
Estimated Tax Rate %	27.5%

ESTIMATED TAX POSITION AFTER TAX PLANNING STRATEGIES

YEAR ENDED 30 JUNE 2019

<u>Estimated Income 2018-19</u>	Dynamic Rigging Hire
Net Income from Business	\$388,000
Wages & Salaries	\$0
Interest, Dividends & Managed Funds	\$0
Rental Property	\$0
Capital Gains	\$0
Other Income	\$0
Total Income	\$388,000
<u>Less: Estimated Deductions</u>	\$0
<u>Estimated Taxable Income</u>	\$388,000
<u>Estimated Tax Payable</u>	
Tax on Taxable Income	\$106,700
<u>Add: Other Taxes (Including HELP)</u>	\$0
<u>Less: Tax Paid on Wages</u>	\$0
<u>Less: PAYG Tax Instalments (Including June)</u>	-\$146,409
<u>Less: Other Tax Credits</u>	\$0
Estimated Tax Refund	-\$39,709
Estimated Tax Rate %	27.5%
Net Tax Savings	\$19,800

Based on the above estimated result, the June PAYG Tax Instalment of \$36,602 can be varied to nil. If this is done then the estimated tax refund would be \$3,107 (not \$39,709)

OTHER ITEMS TO DISCUSS

Trading Results

- i) The estimated profit of \$460k is based on sales of \$140,000 for May and \$140,000 for June.
- ii) The business has continued to perform well; generating good profit and good cashflows. The main reason for this is significant improvement in cashflow is the reduction in your debtors. This time last year your debtors were \$348,901 (99 days); and now they are only \$102,035 (25 days).

Dividends

- i) Each shareholder has received \$125,000 in dividends for the year to date. These dividends are treated as income when received by the shareholders and will need to be included as income in your tax returns.
- ii) We recommend no further dividends be paid this financial year. If funds are required then try to hold off until July 2019.
- iii) We will prepare the required dividend notices for each shareholder in due course.
- iv) As we did in the previous year, the dividends can be reduced slightly and classed as a shareholder loan repayment. Each shareholder is still owed \$17,190.

Sale of Business

- i) Is Kennards still interested?

Tax Planning Recommendations

- i) Sales – defer invoicing sales in the last 1-2 weeks of June 2019 until June 2020.
- ii) Instant Asset W/off – you can immediately deduct the cost of an asset if it costs less than \$30,000 excluding GST and is purchased prior to 30 June 2019. This deduction can be used for each asset that costs less than \$30,000, whether new or second hand.
- iii) Super – pay the super for staff for June on/before 25th June. The fund's need to clear your bank account prior to 30th June for a tax deduction to be claimed.

Xero Permission Level

I will liaise with Kerry to give me permission to invite users to access the Xero file, as i wish to invite another staff member to use the file.

TAX PLANNING STRATEGIES

A more detailed list of potential tax planning strategies is as follows:

MAIN TAX PLANNING STRATEGIES

STRATEGY

Bring Forward Expenses

If possible, you should incur any business use expenses prior to 30 June 2019. This way that expense will be included in the 2019 tax year rather than 2020 tax year, reducing your tax payable in this financial year.

Examples include: consumables, repairs, computer and office supplies.

Defer Income

If possible, you should defer issuing invoices in the last week or two until after 30 June 2019. This way that income will be included in the 2020 tax year rather than the 2019 tax year, deferring tax on the income for a year. Cash basis taxpayers should defer receipt of payment if possible.

Accounts Receivable

Under the small business tax concessions, the financial statements can be prepared on a cash basis so amounts receivable can be removed from the financial statements for tax purposes

Accounts Payable

Under the small business tax concessions, the financial statements can be prepared on a cash basis so amounts payable can be removed from the financial statements for tax purposes

Depreciation From Purchased Assets that Cost more than \$30,000

A small business entity that purchases depreciating assets that cost more than:

- \$30,000 from 3 April 2019 - 30 June 2019
- \$25,000 from 29 January 2019 – 2 April 2019
- \$20,000 from 1 July 2018 – 28 January 2019

Will receive the following tax deductions from pooling the asset(s) in a small business asset pool:

- A 15% deduction in the 2019 tax year, regardless of when you purchased or acquired the asset during the year; and
 - A 30% deduction each year after the first year.
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Bucket Company

If your business is trading through a trust and you have incurred higher than normal profits or the profits earned in your business are taxed at the highest marginal tax rate then a further tax planning strategy to consider is to set up a bucket company.

Instant Asset Write Off

You can immediately deduct the cost of a business asset if it costs (excluding GST) less than:

- \$30,000 from 3 April 2019 - 30 June 2019
- \$25,000 from 29 January 2019 – 2 April 2019
- \$20,000 from 1 July 2018 – 28 January 2019

This deduction can be used for each asset that costs less than \$30,000, whether new or second hand.

Pay Employee Superannuation

To secure a tax deduction for your June quarter 2019 superannuation owing, we recommend that you pay this prior to 23 June 2019 to ensure that it has time to clear into the super funds prior to 30 June 2019. NOTE: This payment must clear your back account prior to 30 June 2019 for it to be considered a tax deduction in the 2019 tax year.

One Year Lease

If you are considering purchasing plant and equipment in excess of \$25,000 per item you could consider using a one year lease agreement to accelerate the tax deduction available. Providing the lease is structured correctly full amount of the lease payment is tax deductible in the year of payment.

Super - Optimise Tax Deductible Super Contributions

In the 2019 tax year, the concessional super contributions (gives you a tax deduction) cap is \$25,000 for everyone. Concessional super contributions include employer contributions (such as super guarantee and salary sacrifice contributions) and personal contributions.

One strategy you could consider is to review your super contribution types and amounts to ensure your super contributions have been optimised.

For example, if your employer contributions for the year are \$15,000, you could choose to "top up" your super to the \$25,000 limit by making either a salary sacrifice contribution of \$10,000 or a personal contribution of \$10,000.

PERSONAL SUPER CONTRIBUTIONS

Additionally, individuals under 75 years old can claim a tax deduction for personal super contributions (including those aged 65 to 74 who meet the work test).

To satisfy the work test, a person must work at least 40 hours during a consecutive 30-day period each financial year in order for their fund to accept a personal super contribution for which they can claim a deduction.

If you are interested in discussing this further, please contact our office and ask to speak to a licensed financial adviser.

Distribution to Children or Other Family Members Over 18

Children aged 18 at 30 June are taxed at adult tax rates and as such income can be split multiple ways rather than just between husband and wife. This can also apply to other family members such as parents or siblings if they don't have high incomes and are not in receipt of Centrelink allowances

OTHER BUSINESS TAX PLANNING STRATEGIES

STRATEGY

Bonus Payments

Bonus payments to employees will be tax deductible to the employer in the 2019 year (even if the physical payments are not made until the following year), provided that the business is committed to the payments of quantified amounts prior to 30 June 2019. This will be evidenced by employment agreements and Resolutions of Directors / Trustees / Managers.

Business Travel Listing

Prepare listing of all Business Travel prior to 30 June 2019 for payment of Travel Allowances. This will increase your tax deductions, and reduce your tax payable.

Donations

Not only are donations to an organisation on the Deductible Gift Recipient register tax deductible, you will be supporting a very worthy cause. (The amount you wish to donate is at your discretion and the strategy cost listed to the right is to illustrate the potential tax savings).

You will need to make your donation by 30 June 2019 to be able to claim a tax deduction for the 2019 year.

Home Office Costs

Keep a diary, like a log book, of the hours you work from home. Your diary evidence may then allow for an hourly rate claim for home office running costs.

Prepay Accounting Fees

Consider prepaying your Accounting Fees for the next year before 30 June 2019. You can claim an immediate tax deduction for such prepayments. (The strategy cost noted is only an estimate and was based upon your prior year tax returns to allow an indicative tax saving amount to be calculated).

Review Trade Debtors & Write off bad debts

Do you have any outstanding debtors that are unlikely to pay? If so, you should consider writing these off prior to 30 June 2019. The decision to write off bad debts should be documented prior to 30 June 2019 and your accounting system updated prior to 30 June 2019.

Spouse or Children Wage

Overall family tax can be reduced if income can be legitimately paid to a spouse or children over age 14 who has a lower tax rate. Wages can be paid to a spouse and can be treated as a tax deduction provided that the amount paid is reasonable for the duties performed. If the monthly wages are over \$450, then employer superannuation of 9.5% will have to be paid on the wages amount. Workers compensation insurance and payroll tax pay also apply to any wages paid.

Start-Ups - Deduction for Professional Expenses

Small businesses are entitled to certain deductions when starting up a small business. The range of deductible start-up costs includes professional, legal and accounting advice and government fees and charges.

Stock / Work in Progress Valuation

Stock and Work in Progress (WIP) are required to be valued at the end of 30 June 2019 at its cost, market selling price or replacement value. There is no obligation to use the same method for each item of stock - so it's worthwhile to consider the valuation method used for each stock item to potentially reduce your tax.

The definition of each method is as follows:

- **Cost** - the cost of acquiring the trading stock / WIP plus any further costs in getting it into its existing condition or location.
 - **Market Selling Value** - the current selling value of the item in your selling market.
 - **Replacement Value** - the cost of replacing the item.
 - **Obsolete Stock** - you may also elect to value an item of stock below any of the values above due to obsolescence or any other special circumstances.
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Tax Audit Insurance

Audit Insurance is a good way of ensuring you are not out of pocket in the event of an Australian Taxation Office (ATO) Audit of your tax returns. The ATO are consistently increasing their Audit activity through more and more data matching with third party institutions. If they find something that you have not declared and it takes time to resolve the issue, you can be left with a large accounting bill. For such a small tax-deductible premium you can have peace of mind should you ever be singled out.

To claim a tax deduction for this in the 2019 year, you will need to pay your insurance premium before 30 June 2019.

PERSONAL BUSINESS TAX PLANNING STRATEGIES

STRATEGY

Defer Investment Income & Capital Gains

If possible, you should arrange for the receipt of Investment Income (e.g. Term Deposits) and realisation of capital gains (based on contract date) to occur after 30 June 2019.

Investment Property Depreciation

Arrange for a Depreciation Report prior to 30 June 2019 to allow you to claim the maximum amount of depreciation and building write-off on your rental properties, and to claim a tax deduction for the preparation of the report.

Investment Property Repairs & Maintenance

Make payments for repairs and maintenance prior to 30 June 2019.

Prepayment of Interest Expense - Investment Property

A prepayment of interest brings forward a tax deduction from next year to this year.

One strategy you could use is to fix interest on your Investment Property Loan and make prepayments (up to 12 months) prior to 30 June 2019.

Please contact us to discuss this strategy before you do anything.

DYNAMIC RIGGING HIRE PTY LTD
FINANCIAL SUMMARY



	April 2019	2018	2017	2016
HIRE FEES				
Total	\$ 1,251,846	\$ 1,421,432	\$ 931,701	\$ 511,487
Average per month	\$ 125,185	\$ 118,453	\$ 77,642	\$ 42,624
Average per week	\$ 29,113	\$ 27,335	\$ 17,917	\$ 9,836
DIRECT COSTS				
Total	\$ 227,413	\$ 144,859	\$ 110,531	\$ 84,675
Average per month	\$ 22,741	\$ 12,072	\$ 9,211	\$ 7,056.25
Average per week	\$ 5,289	\$ 2,786	\$ 2,126	\$ 1,628
PAYROLL COSTS				
Total	\$ 265,981	\$ 241,806	\$ 185,194	\$ 162,910
Average per month	\$ 26,598	\$ 20,151	\$ 15,433	\$ 13,576
Average per week	\$ 20,460	\$ 4,650	\$ 3,561	\$ 3,133
OCCUPANCY COSTS				
Total	\$ 67,081	\$ 58,994	\$ 51,904	\$ 27,300
Average per month	\$ 6,708	\$ 4,916	\$ 4,325	\$ 2,275
Average per week	\$ 1,560	\$ 1,135	\$ 998	\$ 525
LOAN REPAYMENTS				
Total	\$ 82,951	\$ 59,065	\$ 55,866	\$ 51,821
Average per month	\$ 8,295	\$ 4,922	\$ 4,656	\$ 4,318
Average per week	\$ 1,929	\$ 1,136	\$ 1,074	\$ 997
MOTOR VEHICLES				
Total	\$ 19,167	\$ 18,141	\$ 15,975	\$ 16,333
Average per month	\$ 1,917	\$ 1,512	\$ 1,331	\$ 1,361
Average per week	\$ 446	\$ 349	\$ 307	\$ 314
ADVERTISING				
Total	\$ 18,544	\$ 28,303	\$ 20,987	\$ 8,465
Average per month	\$ 1,854	\$ 2,359	\$ 1,749	\$ 705
Average per week	\$ 431	\$ 544	\$ 404	\$ 163