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NEWSLETTER

JUNE 2002

SIMPLIFIED TAX SYSTEM

Several changes will affect the preparation of your business financial statements and income tax return in the 2001/02 year.

If your *turnover is less than \$1 million*, you will need to elect whether or not to adopt the **Simplified Tax System (STS)** for your business. The election needs to be made when you lodge your 2001/02 tax return.

Key features of the STS include:

1. Cash Accounting

Only income actually received and payments actually made are included. ie; debtors and creditors are not taken up.

Advantage: Income tax reporting is usually aligned to GST reporting.

Disadvantage: Accrued expenses cannot be claimed.

STS taxpayers must pay accounts before 30th June 2002 to claim a tax deduction this financial year.

Payment means the cheque must have left your control. The Australian Taxation Office will not accept back-dated cheques or cheques sitting in your bottom drawer.

2. Prepayments

Immediate deduction for prepayments up to 12 months in advance.

3. Modified Depreciation Regime

Immediate write off for assets costing less than \$1000.

Asset Life < 25 years – Pooled & depreciated at 30%.

Asset Life > 25 years – Pooled & depreciated at 5 %.

Assets acquired during the year are depreciated at half the above rates, ie; 15% & 2.5% respectively in the first year.

These rates apply irrespective of when the assets are acquired. For example; depreciation on an item of plant costing \$20,000 is \$3000 whether it is purchased on 2 July 2001 or 28 June 2002.

Advantage: Tax on the profit from the sale of an asset is effectively deferred until the value of the pool reaches Nil.

Disadvantage: Depreciating assets lose their pre-CGT status.

4. Trading Stock

Stocktakes are not required if the difference between opening and closing stock is less than \$5,000.

If your *turnover is greater than \$1 million*, or you elect not to enter the Simplified Tax System, then the following changes will apply:

- Prepayments must be apportioned over the period to which they relate.
- Depreciation Rate is based on the plant's effective life.
- All Assets costing less than \$1,000 must be allocated to a Low Value Pool and depreciated at 37.5% Diminishing Value.
- No immediate deduction for plant costing less than \$300.
- No Balancing Charge offset of profit from the sale of one asset against the depreciable value of other assets.

The removal of balancing charge offsets for non-STS taxpayers could result in the realisation of large taxable profits on the sale of Plant & Equipment. Please check with us on the taxation implications before finalising any sale or trade-in.

WORKERS COMPENSATION

If your business is structured through a Family Trust with a Corporate Trustee, and you have no other form of reasonable remuneration, then you can be deemed to be an employee for Workers Compensation purposes. It is suggested that you declare a base wage (eg \$25,000) for Workers Compensation purposes to avoid having the whole Trust Distribution deemed to be wages.

SGC REMINDER

From 1 July 2002, compulsory Superannuation Guarantee Charge contributions increase from 8% to 9%.

Superannuation contributions must be received by the superannuation fund by 30th June 2002, if you want to claim a tax deduction this financial year. This applies to both employer and self-employed member contributions.

TAX TIPS

- **Superannuation**

If you are self employed you can claim the first \$3,000 plus 75% of the balance of your superannuation contributions as a tax deduction.

- **Income Protection Insurance**

Is fully tax deductible.

- **Farm Management Deposits**

100% tax deductible in year of deposit, and not assessable until year of withdrawal.

Your non-Primary Production income cannot exceed \$50,000, and the deposit must be for a minimum of 12 months.

- **Sell Shares to realise Capital Losses**

Realise any capital losses on shares before the end of June to offset against any existing capital gains.

- **Spouse Super. Contribution**

If your spouse's assessable income is less than \$13,800, you can make a superannuation contribution for them, and claim a tax rebate of up to 18% or \$540.

PENALTY REMINDER

The Australian Taxation Office is going to begin issuing penalties for late lodgement of BAS's and IAS's.

From 1st June, 2002 penalty is \$110 for every 28 days late, up to a maximum of \$550 (for small entities).

TAX PLANNING

Worried about your potential tax liabilities? Make an appointment before the end of June to estimate your profit for the year, and to discuss tax effective strategies to minimise the tax you have to pay.

The articles contained in this newsletter are intended for general information only. For specific information or advice, please contact your nearest office

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