

TWOMEY PATTERSON

Chartered Accountants

Tax Checklists

June 2006

2005/2006 Individual Tax Return Checklist

Your Checklist

- Claims for deductions ✓
- Receipts for deductions ✓
- Car claims and log books ✓
- Car record keeping ✓

Please review the information below and contact our office if you need assistance.

Tax saving strategies prior to 1 July 2006

Accelerating tax claims

As personal income tax rates are set to be cut from 1 July 2006, there may be an additional advantage to be had by accelerating any income tax deductions into the current income year.

The tax rates for resident individual taxpayers for the 2005/2006 income year are as follows:

Income threshold	Tax payable
0 – \$6,000	Nil
\$6,001 – \$21,600	Nil + 15% on excess over \$6,000
\$21,601 – \$63,000	\$2,340 + 30% on excess over \$21,600
\$63,001 – \$95,000	\$14,760 + 42% on excess over \$63,000
\$95,001 and over	\$28,200 + 47% on excess over \$95,000

Note: The Medicare levy is in addition to these rates.

Common work-related claims made by individuals

The following outlines common types of deductible expenses claimed by individual taxpayers, such as employees and rental property owners, plus some strategies that can be adopted to increase deductions for the 2005/2006 income year.

1. Depreciable plant costing \$300 or less

Salary and wage earners and rental property owners will be entitled to an immediate deduction if plant costing \$300 or less is purchased before 1 July 2006.

Some purchases you may consider include:

- ▶ fax machines;
- ▶ beepers and pagers;
- ▶ books and trade journals;
- ▶ briefcases/luggage or suitcases;
- ▶ calculators, electronic organisers;
- ▶ software;
- ▶ stationery;
- ▶ tools of trade.

2. Clothing expenses

Purchase or pay for work-related clothing expenses prior to the end of the income year, such as:

- ▶ compulsory, non-compulsory (and registered), occupational specific and protective clothing;
- ▶ other expenses associated with such work-related clothing such as dry cleaning, laundry and repair expenses.

3. Self education expenses

Consider pre-paying the following self education items before the end of the income year:

- ▶ course fees (but not HECS-HELP fees), student union fees, and tutorial fees;
- ▶ interest on borrowings used to pay for any deductible self education expenses.

Also bring forward purchases of stationery and text books (i.e., those which are not required to be depreciated).

4. Other work-related expenses

Employees can prepay any of the following expenses prior to 1 July 2006:

- ▶ union fees;
- ▶ subscriptions to trade, professional or business associations;
- ▶ magazine and newspaper subscriptions;
- ▶ seminars and conferences;
- ▶ income protection insurance (excluding death and total/permanent disability).

Note: When prepaying any of the expenses above before 1 July 2006, ensure that any services are provided within 12 months of the payment and before 1 July 2007. Otherwise, the deductions must be claimed over the period of the prepayment.

Information Required

We will need you to bring information to assist us in preparing your income tax return.

Please check the following and bring along payment summaries, statements, accounts, receipts, etc., to help us prepare the return:

Income/Receipts

- payment summaries for salary and wages;
- lump sum and termination payments;
- government pensions and allowances;
- other pensions and/or annuities;
- allowances (e.g., entertainment, car, tools.);
- interest, rent and dividends;
- distributions from partnerships or trusts;
- details of any assets sold that were either used for income earning purposes or which may be caught by capital gains tax.

Deductions (in addition to those mentioned above):

- ▲ award transport allowance claims;
- ▲ bank and government charges on deposits of income, and deductible expenditure;
- ▲ bridge/road tolls (travelling on business);
- ▲ car parking (when travelling on business);
- ▲ conventions, conferences and seminars;
- ▲ depreciation of library, tools, business equipment, incl. portion of home computer;
- ▲ gifts or donations;

- ▲ home office running expenses:
 - cleaning
 - cooling and heating
 - depreciation of office furniture
 - lighting
 - telephone;
- ▲ interest and dividend deductions:
 - account keeping fees
 - ongoing management fees
 - interest on borrowings to acquire shares
 - advice relating to changing investments (but not setting them up);
- ▲ interest on loans to purchase equipment or income earning investments;
- ▲ motor vehicle expenses (business);
- ▲ overtime meal allowances;
- ▲ rental property expenses – including:
 - advertising expenses
 - council/water rates
 - insurance
 - interest
 - land tax
 - legal expenses/management fees
 - genuine repairs and maintenance
 - telephone expenses
 - travelling to inspect property;
- ▲ superannuation contributions by sole traders or substantially unsupported taxpayers;
- ▲ sun protection items;
- ▲ tax agent fees;
- ▲ telephone expenses (business);
- ▲ tools of trade.

2005/2006 Year-end Checklist for Business

Many of our business clients like to review their tax position at the end of the financial year and evaluate any year-end strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around two simple concepts – i.e., accelerating business deductions and deferring income.

However, the ground rules changed forever when the Simplified Tax System ("STS") was introduced in the 2002 income year. Since then, businesses that elect to enter the STS are no longer determining their taxable income in the same way as they have done in the past.

In some instances, STS taxpayers will have greater access to year-end tax planning due to particular concessions that only apply to them. In other instances, non-STS taxpayers may be better off. The following are a number of areas that may be considered.

Maximising deductions for non-STS taxpayers

Non-STS business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- Prepayment strategies.
- Accelerating expenditure.
Accrued expenditure.

Prepayment strategies – non-STS

Any part of the prepayment relating to the period up to 30 June is deductible in full.

In addition, non-STS taxpayers may claim the following prepayments in full:

- expenditure under \$1,000;
- salary and wages; or
- expenditure required to be incurred under law.

Editor: Prepayments can be a little confusing, so before you commit to making a payment please feel free to call us with any queries or assistance if required.

Accelerating expenditure – non-STS

This is where a business taxpayer brings forward the expenditure on regular, on-going deductible items. Non-STS taxpayers are entitled to deductions on an "incurred basis".

Therefore, there is no requirement for the expense to be paid by 30 June 2006. As long as the expense has genuinely been incurred, it will be deductible.

Checklist

The following may act as a checklist of possible accelerated expenditure:

- ▲ **Depreciating assets** costing \$100 or less can be written off in the year of purchase.

Depreciating assets costing less than \$1,000 can be allocated to a low value pool and depreciated at 18.75% (which is half of the full rate of 37.5%) in their first year regardless of the date of purchase.

- ▲ **Repairs** – repairs to office premises, equipment, cars or other business items.

- ▲ **Consumables/spare parts.**

- ▲ **Client gifts.**

- ▲ **Donations.**

- ▲ **Advertising.**

- ▲ **Fringe benefits** – any benefits to be provided, such as property benefits, could be purchased and provided prior to 30 June 2006.

- ▲ **Superannuation** – contributions to a complying superannuation fund, up to the employee's age based limit. However, deductions can only be claimed to the extent contributions are actually made (i.e., they cannot be accrued).

Age of employee in years	Deduction Limit
	\$
Under 35	14,603
35 to 49	40,560
50 and over	100,587

Accrued expenditure – non-STS

Non-STS taxpayers are still entitled to a deduction for expenses incurred as at 30 June 2006, even if they have not yet been paid.

The following expenses may be accrued:

- ▶ **Salary or wages and bonuses** – the accrued expense for the days that employees have worked but have not been paid as at 30 June 2006.
- ▶ **Interest** – any accrued interest outstanding on a business loan that has not been paid as at 30 June 2006.
- ▶ **Commercial bills** – the discount applicable to the period up to 30 June, where the term of the bill extends past 30 June 2006.
- ▶ **Commissions** – where employees or other external parties are owed commission payments.
- ▶ **Fringe benefits tax** – if an FBT instalment is due for the June 2006 quarter for example, it can be accrued and claimed as a tax deduction in the 2006 income year.
- ▶ **Directors' fees** – where a company is definitively committed to the payment of a director's fee as at 30 June 2006, it can be claimed as a tax deduction.

Maximising deductions for STS taxpayers

Deductions can be maximised for STS business taxpayers by accelerating expenditure and prepaying deductible business expenses. STS taxpayers accounting for tax on cash basis cannot accrue expenses, but STS taxpayers on an accruals basis can also now accrue expenses.

Accelerating expenditure – STS

Where STS taxpayers account on a cash basis*, they are generally only entitled to deductions (i.e., a deduction can only be accelerated) if they have paid the amount by 30 June 2006.

This covers the following expenditures:

- general deductions;
- tax-related expenses; and
- repairs.

STS taxpayers can write-off depreciable assets costing less than \$1,000 in the year of purchase. Also, assets costing \$1,000 or more with an effective life of less than 25 years can be depreciated at 15% (which is half the full rate of 30%) in their first year.

Therefore, where appropriate, STS business taxpayers should consider purchasing these items by 30 June 2006.

- *STS taxpayers have been able to use an accruals basis since 1 July 2005.*

Prepayment strategies – STS

Prepayments made before 1 July 2006 will generally be fully deductible in the year they are paid where they cover a period of no more than 12 months (ending before 1 July 2007).

The kinds of expenses that may be prepaid include:

- Rent on business premises or equipment.
- Lease payments on business items such as cars and office equipment.
- Interest – check with your financier to determine if it's possible to prepay up to 12 months interest in advance.
- Business trips.

- Training courses – consider booking and prepaying courses that run on or after 1 July 2006.
- Business subscriptions.
- Cleaning.

Information Required

We will need you to bring information to assist us in preparing your income tax return:

- Stocktake details as at 30 June.
- Debtors listing (including a list of bad debts written off) as at 30 June.

Note: In order to claim a deduction, the debt must be written off on or before 30 June.

- Creditors listing as at 30 June.

The articles contained in this newsletter are intended for information only and not for advice. For further information or advice, please contact your nearest office.

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