Morrows Knows: Tax Planning 2014

Other Taxation Considerations

Tax Planning Options and Issues to Review

- Distributions to companies – new ATO approach to post 16 December 2009 loans
  - Note that interest needs to be accrued on 2010, 2011, 2012 & 2013 entitlements in accordance with the ATO position and any agreements entered into. Noting to be mindful of the impact of return lodgement due dates on the calculation of the interest and when the interest needs to be paid by.
- Ensure minimum Division 7A requirements are met
  - Written facility agreement
  - Minimum interest & principal repayments
  - Separation of loans
- Maximising benefits under the FBT system. That is salary package laptops that are primarily for business use, vehicles etc.
- Remunerating directors of companies / trust beneficiaries by a distribution rather than a wage and the savings on payroll tax and workcover as well as potential personal superannuation deductions
- Utilising tax free threshold where company / trust is in a loss situation by paying wage that will still be tax free to the directors / beneficiaries. Maximum tax free threshold for individual is $20,542. Note superannuation contributions need to be made and a workcover policy in place
- Primary production issues of which to be aware:
  - FMD's. Tax issues on withdrawal (possible superannuation contributions to offset). Maintaining FMD's (i.e. continuing as a primary producer. Making deposits that cannot exceed PP income, maximum per person is $400,000 and must be held with one bank
  - Water facility deductions over 3 years, with one third deductible in year of acquisition regardless of date - that is, can obtain deduction for one third of costs incurred in June
  - Landcare costs are fully deductible
  - Ensuring the appropriate beneficiaries of a primary production trust are nominated as beneficiaries for taxation and FMD purposes where the trust is expected to not have a distributable income for the 2014 financial year.

- Averaging. Ensuring minor beneficiaries are in averaging from age 14. This should be achieved by distributing the maximum allowable income from the trust. Just need to ensure that in year 2 the PP distribution is more than year 1. Can create huge tax savings in the year they turn 18. Consider removal from averaging, especially when over 60 and income is managed via superannuation. Results in no complementary tax being payable. Election cannot be revoked so once you elect out of the system you are always out.

Negative Gearing (Property or Share investments)

Negative gearing may be a good way to increase wealth by:

- Allowing a tax deduction now when you need it
- Not be taxed on the capital growth of the investment until it is sold in the longer term

When considering this type of investment you need to compare the initial losses against potential capital growth and future cashflow.

We are able to review any potential investments with you to determine your after tax position with the investment and the optimum ownership structure of the purchase.

Temporary Budget Repair Levy

From 1 July 2014, the government will introduce a 3-year temporary levy of 2% on individuals with taxable income in excess of $180,000 per annum, until 30 June 2017. (The legislation is expected to passed in parliament before 1 July 2014)

Therefore, it might be prudent to consider bringing forward income (dividends and/or capital gains) to the 2014 financial year.