

## Client Newsletter

Year End Tax Planning Checklist  
For the year ending 30 June 2024

For the information of clients we enclose this checklist which you may find helpful in planning your year-end tax strategies. Careful planning (and in many cases timing) is always important when tax planning is concerned. This document is not exhaustive and your individual circumstances must be considered. Please contact your StewartBrown Manager or Partner should you need any assistance with understanding or applying the below.

### OVERVIEW

Here's a quick summary of what you need to consider for yourself and your business before the end of the financial year:

- **Superannuation (in pension phase).** Ensure minimum pension amounts have been withdrawn before 30 June. See 1 below for further details.
- **Superannuation Guarantee charge to increase from 11.0% to 11.5% on 1 July 2024.** See 21(B) below.
- **Trustees of discretionary trusts.** You are required to document your annual distribution decision before 30 June. See more details at 2 below.
- **Personal tax rates.** See 4 below for current personal tax rates.
- **Company tax rate is 25% and remains at 25% in 2025. (Base rate entities only).** See 3 (A) below.
- **Improved and expanded asset write-off incentives still apply.** The recent Federal budget has proposed that this measure be extended out to 30 June 2025 (*legislation still pending*). From 1 July 2025 the threshold reduces back to \$1,000. See 3(B) below.
- **Cryptocurrencies and Digital Assets.** The ATO has access to extensive data from exchanges and service providers that can easily match transactions to clients. See more details at 6 below.

#### (1) SUPERANNUATION

Listed below are some of the key areas that you may need to consider this year-end, both in planning for the rest of 2024 and looking forward into 2025 and beyond:-

- The annual concessional and non-concessional contribution caps are \$27,500 and \$110,000 respectively. These caps will increase to \$30,000 and \$120,000 respectively from 1 July 2024.
- The 11.0% superannuation guarantee applies from the first dollar of an employee's earnings up to \$62,270 per quarter. This increases to 11.5% and \$65,070 respectively from 1 July 2024.
- A \$1.9m pension transfer balance cap applies per member and the earnings therefrom will continue to be tax free, however earnings on funds in excess of the \$1.9m cap will be subject to tax at 15% (if retained in superannuation). This cap remains the same for the 2024-25 financial year.
- Fund earnings attributable to Transition to Retirement Income Streams ("TRIS") are taxed at 15% rather than being tax free (which has been the rule since 1 July 2017).
- Some superannuation fund clearing houses will close off their year-end processing well before 30 June. This will mean that they may not accept your contributions if paid after those close off dates. Please check with your superannuation clearing house to ensure you meet their deadline. Some are as early as 16 June 2024.

- Individuals can save for their first home deposit by making voluntary contributions into their super fund of up to \$15,000 per year (max. of \$30,000 in total). Contributions and deemed earnings can then be withdrawn (from 1 July 2018) for a first home deposit. From 1 July 2022, the amount of eligible contributions that can count towards your maximum releasable amount across all years has increased to \$50,000. The amount of eligible contributions that can count towards this total for each financial year will remain at \$15,000.
- A person aged 55 or over (previously aged 60 and over) can make a “Downsizer” contribution into their super fund of up to \$300,000 from the proceeds of selling their home (a couple can therefore contribute \$600,000 into super). These contributions are not subject to the normal contribution limits described below. Certain conditions apply and you should check with us to see if this is suitable for you.
- The “work test” still applies to some contributions. To meet the work test, you must be gainfully employed for at least 40 hours during a consecutive 30-day period in the financial year in which the contributions are made. This is an annual test. This means once you meet this test you can make contributions for the entire financial year. Gainfully employed means employed or self-employed for gain or reward in any business, trade, profession, vocation, calling, occupation, or employment. For contributions made on or after 1 July 2022, the work test only applies to those people aged between 67 and 75 who are claiming a tax deduction for personal, concessional superannuation contributions.
- Carry forward concessions still apply allowing you to utilise previously unused concessional contribution caps going back in some cases up to five years. See further details below at 21 (C).
- Bring forward concessions also apply to utilise previously unused non-concessional contribution caps going back up to three years. See further details below at 21 (F).

The tax rate for complying superannuation funds in accumulation phase remains at 15%. Superannuation funds in pension phase will continue to be tax free (subject to the \$1.9m cap mentioned above).

The superannuation rules are complex, so we encourage you to call your StewartBrown Manager or Partner if you have any questions or concerns.

## (2) TRUSTS

The ATO is continuing its crackdown on the taxation of family trusts, in particular where they are used to make distributions to beneficiaries paying tax at lower rates, when the benefit does not flow to the beneficiary. Many family groups will need to reconsider how they are using their family trust. Their **TR 2022/4** and **PCG 2022/2** set out the ATO’s updated guidance on trust distributions and reimbursement agreements. See further details below at 27.

You should therefore carefully consider which beneficiaries should receive distributions from your trust this year and if in doubt seek advice from your StewartBrown Manager or Partner.

## (3) BUSINESS TAXES

### (A) **Tax Rates**

The standard company tax rate for the 2024 year is 30%, however a lower company tax rate of 25% applies to ‘base rate entities’ (“BRE”s – see below).

A company is a BRE and qualifies for the lower company tax rate for an income year if both of the following apply:

- no more than 80% of the company’s assessable income for that income year is base rate entity passive income (such as rent, interest, dividends, royalties etc); and
- the aggregated turnover of the company for the income year is less than the aggregated turnover threshold, \$50m for 2023-24 and future years.

One other point to note with these different corporate tax rates is that a company’s imputation or franking credits might not always match up with the corporate tax rate being paid. Please speak with your StewartBrown Manager or Partner for further advice in this area.

**(B) Small business Instant Asset Write off and small business energy incentive**

The Instant Asset Write-off threshold reduces to \$1,000 from 1 July 2023 (unless the Federal Government's recent budget proposal receives Royal Assent in which case that figure will increase to \$20,000 per asset). This measure is available for small businesses with an aggregated turnover of less than \$10m (subject to legislation being passed).

A small business energy incentive is proposed for businesses with an aggregated annual turnover of less than \$50m. This will be a bonus deduction of 20% of the cost of asset or improvement to existing assets that supports electrification or more efficient energy use. The deduction is capped at \$20,000 and applies to assets acquired between 1 July 2023 and 30 June 2024. This is not law yet, but legislation is currently before parliament.

For more specific and tailored advice concerning your businesses eligibility for these concessions please contact your StewartBrown Manager or Partner.

**(C) Obsolete equipment**

In order to write-off obsolete plant and equipment in the 2024 financial year and crystallise a tax deduction for the written down value, the assets must be physically scrapped or disposed of prior to 30 June 2024.

**(D) Extension of small business concessions to medium businesses**

From 1 July 2020 eligible businesses can immediately deduct certain start-up expenses and certain prepaid expenditure. Previously turnover had to be below \$10m to be eligible for these concessions. This has been raised to \$50m.

**(E) Skills and training boost**

Small businesses with an aggregated annual turnover of less than \$50m will be allowed an additional 20% tax deduction for external training courses delivered to employees by registered training providers.

The boost applies to eligible expenditure incurred from 7:30 pm AEDT on 29 March 2022 until 30 June 2024.

The expenditure must be:

- for the provision of training to employees of your business, either in-person in Australia, or online.
- charged, directly or indirectly, by a registered external training provider that is not you or an associate of yours.
- already deductible for your business under taxation law.
- incurred within a specified period (between 7:30 pm AEDT or by legal time in the ACT on 29 March 2022 and 30 June 2024).

**(4) PERSONAL INCOME TAXES**

The following tax rates apply to individuals who are residents of Australia for tax purposes:-

Rate	FY 2023-24	From 1.7.24
Nil	\$0 - \$18,200	\$0 - \$18,200
16%	-	\$18,201 - \$45,000
19%	\$18,201 - \$45,000	-
30%	-	\$45,001 - \$135,000
32.5%	\$45,001 - \$120,000	-
37%	\$120,001 - \$180,000	\$135,001 - \$190,000
45%	\$180,001 +	\$190,000 +

The above rates do not include the Medicare levy of 2.0%, nor the additional 1.5% Medicare levy surcharge applying to higher income earners without private patient hospital cover.

If your taxable income is less than \$66,667 you will receive the low-income tax offset. The maximum offset is \$700 if your taxable income is \$37,500 or less. The offset is reduced for every dollar of taxable income over \$37,500.

## (5) PROPERTY INVESTORS

We remind you of changes affecting property investors over recent years:

- From 1 July 2017 you will not be entitled to claim deductions for travel expenses related to inspecting, maintaining, or collecting rent for a residential rental property.
- Investors who purchase plant and equipment for their residential investment property after 9 May 2017 will be able to claim a deduction over the effective life of that asset. However, subsequent owners of that property will be unable to claim deductions for plant and equipment items purchased by a previous owner. Acquisitions of existing plant and equipment items will be reflected in the cost base for CGT purposes for subsequent investors.
- Individuals, trusts, and Self-Managed Super Funds cannot claim holding costs (such as borrowing costs, interest, Council rates, land taxes etc) incurred over vacant land from 1 July 2019 onwards.
- The ATO has announced a crack-down on expenses being claimed by property investors. Please ensure you can substantiate all property expenses included in your tax return.

## (6) CRYPTOCURRENCIES AND DIGITAL ASSETS

If you hold cryptocurrency or other digital assets such as Non-Fungible Tokens (NFT's) personally or within your business, you should carefully consider the tax treatment of any gains or losses. The ATO advises they are aware of under-reporting of income and gains from cryptocurrency transactions and now have access to extensive data from exchanges and designated service providers which it will match to income tax returns.

If you have undertaken any cryptocurrency transactions, you should seek our advice on how to report this correctly on your Income Tax Return.

## (7) FOREIGN INVESTORS

Measures impacting foreign residents and their investments in Australia:

- Foreign owners of residential property are required to pay annual vacancy fees where the property is not occupied or genuinely available on the rental market for at least 6 months per year.
- A 50% cap applies to foreign ownership in new developments through a condition on New Dwelling Exemption Certificates.
- The CGT withholding rate in relation to property disposals by foreign tax residents is 12.5%. This is a non-final with-holding tax and will be applied as a credit against any tax payable on lodgement of the taxpayer's respective income tax return(s).
- The CGT withholding threshold for foreign tax residents is **\$750,000**.

### **NSW taxes on Non-Residents**

In addition to the above, "foreign persons" (as defined under NSW State legislation) can face up to an additional 8% of stamp duty (known as the "surcharge purchaser duty") when they acquire real estate in NSW and will also face a land tax surcharge (in addition to the usual land tax) of 2% of the value of the property. Importantly, these additional land taxes and stamp duties can apply to an Australian Trust where the Deed for the Trust allows for a beneficiary to be a foreign person.

**If you have a trust that owns property in Australia** and one or more of your beneficiaries are currently (or are proposing to become) non-residents we urge you to **review your Trust Deed** to avoid being caught by these additional taxes. If not done so already, please contact your StewartBrown Manager or Partner to have your Trust Deed reviewed ASAP.

## GENERAL YEAR-END TAX STRATEGIES

### (8) DEFER INCOME

Certain income is only taxed on receipt and, accordingly, it is sometimes possible to arrange for this type of income to mature or be received after 30 June 2024 rather than before. Examples include rent, interest, and dividends.

Certain other business income is only assessable when the taxpayer has a legal right to sue for recovery of the debt and, accordingly, it may be appropriate to defer the completion of certain transactions until after 30 June 2024. Examples include:-

- Defer until July the completion of high profit transactions (e.g. signing of licensing agreements, royalty contracts, delivery of major product installations, etc.).
- Defer the completion of work in progress until July so that invoicing will be raised in the 2025 year.

### (9) ACCELERATE DEDUCTIONS

Generally, businesses can claim income tax deductions for expenses incurred or paid prior to the end of the financial year (subject to the prepayment restrictions outlined in Item 13). Thus, to obtain an income tax deduction in the 2024 financial year it may be appropriate to accelerate and incur certain regular expenses in June 2024 rather than in July or August (e.g. the service or repair of an item of equipment in June rather than in July).

### (10) BAD DEBTS

Review your trade debtors and identify any bad debts that should be written-off. A bad debt will be deductible in the 2024 financial year provided the following tests are satisfied:-

- The debt must exist;
- The debt must be actually "bad" before writing it off;
- The debt must be physically written off prior to 30 June 2024;
- The debt must have been brought to account as income;
- A company writing-off a bad debt must satisfy the continuity of ownership test or same business test; and
- A discretionary trust writing-off a bad debt must have made a "Family Trust Election".

If you write-off a bad debt, remember to claim back the relevant GST in your next BAS return (GST accrual basis only).

### (11) SALARY SACRIFICE PAYMENTS (Including Superannuation and Fringe Benefits)

Where an employee has the option to direct any bonus entitlement or other earnings into a superannuation fund (i.e. salary sacrifice super contribution) the employer must ensure that the request is made in writing prior to the amounts being earned by the employee. Please note that employees who intend to salary package fringe benefits and whose taxable income is less than \$180,000 (\$190,000 from 1 July 2024) should review their arrangements as the changes in the tax rates over recent years could impact on the tax-effectiveness of such arrangements.

### (12) STAFF BONUSES

For accrued staff bonuses to be deductible in the 2024 tax year the decision to pay the bonus and the determination of the bonus must be made and documented prior to 30 June 2024.

If the above decisions are made after year-end, when the actual operating results have been determined, the bonuses will not be deductible until the 2025 tax year. Similar tests must be satisfied for accrued director's fees to be deductible.

### **(13) DONATIONS**

For donations to be deductible in the 2024 tax year they must be for \$2 or more prior to 30 June 2024 (i.e. cheque, EFT or BPAY cleared through the bank account by 30 June 2024). Examples of donations that are deductible include those made to an authorised deductible gift recipient or political party (capped at \$1,500). The tax deduction is limited to the available taxable income (i.e. donations cannot be used to generate or increase the amount of tax losses to be carried forward to a subsequent year). Accordingly, if your business is likely to make a tax loss, it may be to your advantage to make donations personally so as to ensure a full tax deduction. In addition, for individuals wishing to make tax deductible donations we suggest that they be made by the taxpayer on the highest marginal tax rate.

### **(14) PREPAYMENTS**

Most taxpayers are not entitled to claim a deduction in the 2024 tax year for any part of a prepayment that relates to the period after 30 June 2024. Certain expenditure is excluded from this rule, as follows:-

- Where the payment amount is less than \$1,000 (excluding GST);
- Amounts required by law or an order of the court (e.g. workers' compensation premiums, land tax, etc.);
- Under a contract of service (e.g. salary or wages);
- Where the payment relates to non-business expenditure made by an individual taxpayer (e.g. interest on rental property); and
- Where the payment is made by a taxpayer who qualifies as a Small Business Entity (SBE).

Taxpayers who qualify as a SBE (i.e. under \$10m turnover) or individuals with non-business expenditure (e.g. investments, property, etc.) are able to claim prepayments where the period of service does not exceed 12 months and the period of service ends in the next tax year (i.e. before 30 June 2025).

#### **Warning to Businesses other than Small Business Entities (SBE)**

Businesses need to carefully identify all expenses exceeding \$1,000 (excluding GST) paid in advance. This will include prepayments made throughout the financial year not just in June. For example, annual insurance premiums paid in December covering the calendar year (i.e. January to December) will be "caught" by these prepayment restrictions.

### **(15) FOREIGN EXCHANGE LOSSES**

Consideration should be given to accelerating the realisation of unrealised foreign exchange revenue or capital losses before 30 June 2024. Such unrealised losses could be realised by the payment of an overseas liability, thus crystallising the loss before year-end. Foreign exchange losses continue to be deductible against domestic income.

### **(16) TAX LOSS SITUATIONS**

Where your business entity is likely to be running at a tax loss, there may not be any tax benefit in accelerating tax deductions or deferring revenue in the current year. Again, as the tax deductibility of donations is wasted in a tax loss situation it may be more beneficial for donations to be made personally.

### **(17) RESEARCH & DEVELOPMENT EXPENDITURE**

Expenditure by a company on eligible R&D Projects will be entitled to the R&D tax incentive. To maximise the eligible expenditure for the year ended 30 June 2024, payments to related parties should be paid by 30 June (not just accrued) and superannuation attributable to R&D projects should also be paid prior to 30 June 2024.

From 1 July 2021, companies with turnover of less than \$20m are entitled to the refundable tax offset at a rate of 18.5% above the claimant company tax rate. Companies with turnovers in excess of \$20m are entitled to an offset equivalent to their company tax rate plus one or more marginal intensity premiums. An explanation of these marginal intensity premiums is outside the scope of this paper and we would refer you to your StewartBrown Manager or Partner for further details regarding those.

## **(18) TRADING STOCK & WORK IN PROGRESS**

Factors to consider in respect of trading stock at year-end include:-

### **(A) *Stocktake***

On the last day of trading of the financial year a physical count of all trading stock and work in progress should be undertaken and recorded (unless you have a reliable stock control system in place). Please note that a Small Business Entity (SBE) is not required to undertake a stock count of closing stock where the difference between the value of opening trading stock at the beginning of the year and closing stock is estimated to be \$5,000 or less. In these cases the SBE can elect not to do a stocktake but simply assume the closing stock is the same value as the opening stock.

### **(B) *Valuation***

For income tax purposes trading stock (including work in progress) may be valued at cost price, market selling value or replacement value. The appropriate choice of valuation of trading stock will depend on the business circumstances for the year. The most common method adopted is the lower of the three alternatives for each item of stock. The valuation method selected can have a significant effect on the calculation of the year's taxable income. Cost should include direct material, shipping, labour and other manufacturing costs (if applicable). In addition, wholesalers and retailers should include an allowance for warehousing and distribution costs.

### **(C) *Obsolete Stock***

In order to write-off obsolete and worthless stock in the 2024 tax year it is necessary to either physically scrap the stock prior to 30 June 2024 or to identify such stock and set it aside for scrapping within a reasonable time after year-end.

## **(19) CAPITAL GAINS TAX (CGT)**

Where an asset is acquired after 19 September 1985, CGT may apply on its subsequent sale. **Please note that for CGT purposes the purchase or selling date is the date of entry into the contract, not the settlement date.**

To defer or minimise CGT payable where a capital profit would arise you could:-

- Take advantage of the 50% discount for individuals and trusts or the 33.33% discount for superannuation funds, by not disposing of the asset within 12 months of purchase;
- Defer the sale of assets until the beginning of the next tax year (where lower tax rates may apply);
- Match capital gains against capital losses; and/or
- For individual taxpayers, consider deferring the sale of assets until you have a low income year.

Other CGT facts to consider are:-

- Capital losses can only be used to reduce Capital Gains (prior to applying the 50%/33.33% discount);
- Any unrecouped realised CGT losses in the name of an individual are lost or forfeited in the event of death, so it is prudent to utilise such CGT losses as soon as possible; and
- On the sale of a business it may be possible to benefit from the various CGT small business tax concessions.

## **(20) REDUCING EFFECTIVE TAX RATE**

Individual taxpayers may be able to reduce their effective tax rate by:-

- Levelling out income peaks and troughs to avoid higher tax brackets;
- Moving deductions and losses to a higher income spouse or business entity;
- Moving income and gains to a lower income spouse or business entity;
- Deferring retirement or roll-over benefits until after 30 June; or
- Realising capital gains in a low income year and/or realising capital losses to offset capital gains.

## **SUPERANNUATION**

### **(21) SUPERANNUATION CONTRIBUTIONS – ACCUMULATION PHASE**

The accumulation phase is when you contribute money to your superannuation fund for retirement. Important aspects to consider during the accumulation phase are as follows:

#### **(A) Tax Deductible Contributions**

To be deductible in the 2024 year, superannuation contributions must be paid to a complying superannuation fund prior to 30 June 2024. The contribution payment must be cleared through the payer's bank account by 30 June 2024. We recommend making payments at least 2 weeks before the end of the financial year for this reason.

#### **(B) Superannuation Guarantee Legislation**

In accordance with the Superannuation Guarantee (SG) legislation all employers must contribute at the specified contribution levels to a complying Superannuation Fund in respect of employees and also in respect of contractors who are individuals and who are providing predominantly services of labour. Such contributions are required to be paid within 28 days of the end of each quarter with the final payment in respect of the 2024 tax year due by 28 July 2024, otherwise Superannuation Guarantee Charge (SGC) is payable (which is not tax deductible).

All employers are urged to review their SG obligations and to pay the necessary superannuation contributions by 30 June 2024 (if a deduction is required in the 2024 year) and certainly by 28 July 2024 so as to avoid the SGC. The SG rate payable by all employers for the 2024 year is 11.0% of the employees' ordinary time earnings.

The Superannuation Guarantee rate will increase to 11.5% from 1 July 2024.

#### **(C) Tax Deductible Contribution Caps**

The 2024 concessional (i.e. tax deductible) contribution caps for all individuals are detailed in Item 1. above.

The annual contribution caps apply to the total contributions from all sources (including compulsory SG contributions) so it is very important to check that contributions are not made in excess of these caps as additional tax payable may be significant. **Remember the contribution cap is measured by reference to the amount received by the super fund each year not the amount recorded as an expense in the employer's wages records/financial accounts.**

From 1 July 2018, you are able to "carry forward" any unused amount of your concessional contributions cap, subject to your superannuation balance being less than \$500,000 at the end of 30 June in the previous year. You will be able to access your unused concessional contributions cap on a rolling basis for five years.

Amounts carried forward that have not been used after five years will expire. The first year in which you can access unused concessional contributions is 2019–20.

#### **(D) Work Test**

The eligibility to make concessional (tax deductible) contributions to superannuation for those aged 67 and over (formerly 65) but less than 75 is subject to the member satisfying a "work test" whereby they must be gainfully employed or self-employed for at least 40 hours in a period of not more than 30 consecutive days during the financial year. The relevant fund's trust deed must also allow such contributions to be accepted. We strongly recommend that the "work test" be satisfied before making any contribution. From 1 July 2022 you have only been required to meet the work test for personal, concessional superannuation contributions.

#### **(E) Concessional Contributions Provided to High Income Earners (Division 293 Tax)**

Concessional superannuation contributions for high income earners are taxed effectively at the rate of 30% (rather than the standard 15%). A high income earner for this purpose is anyone who earns more than \$250,000 of adjusted taxable income.

The Division 293 tax can be reduced or even eliminated if it is possible to reduce your adjusted taxable income to be below the \$250,000 threshold or by deferring income to a future year (e.g. by deferring the payment of dividends).

#### **(F) Non-Concessional Contributions**

The non-concessional contribution (i.e. non-tax deductible) caps for all individuals are detailed in Item 1. above. Individuals aged under 75 on 1 July of the income year are still entitled to “bring forward” up to three years of non-concessional contributions but the amount that they can bring forward depends on their Total Superannuation Balance (“TSB”). This is best explained in the following table:

From 1 July 2023	
TSB	Contribution and bring forward available
Less than \$1.68m	\$330,000
\$1.68m to less than \$1.79m	\$220,000
\$1.79m to less than \$1.9m	\$110,000
\$1.9m and above	nil

Inadvertent contributions in excess of the non-concessional cap, provided the correct procedure is followed, may be withdrawn from the super fund in accordance with a determination issued by the Commissioner. If not withdrawn, penalty tax is applied.

#### **(G) Co-contributions Incentive**

The Government has a package of assistance whereby for eligible individuals the Government will contribute up to \$0.50 for each \$1.00 of member contribution. The maximum benefit is a \$500 co-contribution from the Government when an individual's assessable income including reportable fringe benefits is \$43,445 or less and a personal contribution of \$1,000 has been made. This benefit reduces on a sliding scale between the assessable incomes of \$43,445 and \$58,445. In addition, from 1 July 2017 your total superannuation balance must be less than the general transfer balance cap on the 30<sup>th</sup> of June the year before the contributions are made and you must not have exceeded your Non-Concessional Contribution Cap in the relevant financial year in order to qualify for this incentive. At the end of the 2023 financial year the general transfer balance cap was \$1.7m. From 1 July 2024 that amount increases to \$1.9m.

To be eligible the following requirements must be met, including:-

- Your personal non-concessional superannuation contribution must be made to your superannuation fund by 30 June 2024. We note that you cannot receive the Government's co-contribution for personal contributions claimed as a tax deduction (as these are concessional contribution);
- Your assessable income, reportable fringe benefits and reportable employer superannuation contributions must be less than \$58,445 per annum;
- 10% or more of your total income for the year must be from employment and/or carrying on a business;
- You are under 71 years of age;
- You are a permanent resident of Australia; and
- You lodge an income tax return for the year.

#### **(H) Contributions for Spouse**

Individuals may be entitled to a tax offset for superannuation contributions made by them on behalf of a low income or non-working spouse. The maximum rebate available is \$540 and is calculated at 18% of contributions up to a maximum of \$3,000. The offset begins to phase out once the spouse's gross assessable income (before deductions), reportable fringe benefits and salary sacrifice superannuation contributions exceeds \$37,000, and is fully phased out once it reaches \$40,000.

**(22) SUPERANNUATION - PENSION PHASE**

Where members have commenced a pension from their superannuation fund it is essential that they ensure the fund pays to them by 30 June 2024 at least the minimum amount of pension and not in excess of the maximum allowed. The minimum and maximum rate is applied to the value of the pension at commencement or, if started in a prior year, the market value of the pension at the beginning of the financial year. The maximum pension is 10% for a TRIS but otherwise there is no maximum.

The minimum pension amounts payable are as follows:-

Age	2025 Minimum Pension %	2024 Minimum Pension %
< 65	4.00%	4.00%
65-74	5.00%	5.00%
75-79	6.00%	6.00%
80-84	7.50%	7.00%
85-89	9.00%	9.00%
90-94	11.00%	11.00%
>95	14.00%	14.00%

**OTHER INFORMATION****(23) PRIVATE COMPANY LOANS (DIVISION 7A)****(A) Private company debit loans**

Borrowings by shareholders from their private companies are referred to as debit loans or Division 7A loans and extend to almost all types of payments or advances to shareholders and their associates (excluding loans to another company). Division 7A continues to apply to the use of company assets where inadequate consideration is paid to the company.

Borrowings that do not satisfy the required exemption tests under Division 7A are deemed to be unfranked dividends and fully taxable in the recipient's hands. It is essential that private company directors ensure that any payments on behalf of shareholders or their associates are either repaid prior to the due date of lodgement of the company's tax return or that the borrowings are covered by a complying Division 7A loan agreement, the terms of which must be strictly complied with each year.

*Loans – Pre 4/12/97:* If you have a Pre 4/12/97 borrowing from your company, the terms of the loan must not be altered. Altering the loan will deem it to be new borrowing on the date it was varied. In effect the loan should be quarantined and all future borrowings treated as separate loans. A strategy should be adopted to repay these loans.

*Loans – Post 4/12/97:* If you have a Post 4/12/97 borrowing from your company brought forward from last year, you must make the minimum annual repayment of capital and interest prior to 30 June 2024. If the minimum repayment is not made, the amount of any shortfall will be deemed to be an unfranked dividend if the company has retained or unrealised profits.

*Loans – Current Year:* If during the current year your company has made a payment to or on behalf of a shareholder or an associate creating a Division 7A loan, this loan will be deemed to be an unfranked taxable dividend in the hands of the recipient, unless the loan is repaid by the due date of lodgement of the company's tax return or alternatively is supported by a complying Division 7A loan agreement.

**Unpaid Trust Distributions to Companies -** Where a trust has distributed income to a corporate beneficiary after 16 December 2009 and the distribution remains unpaid, then this unpaid present entitlement could be treated as a loan for Division 7A purposes. We recommend that these unpaid present entitlements be paid or alternatively such amounts be treated as a Division 7A compliant loan by the time of lodgement of the trust tax return.

The relevant payments can be repaid by:-

- Charging the payment against a pre-existing credit loan account;
- The payment of wages (after PAYG tax and superannuation is paid);
- The payment of a fully franked dividend provided franking credits and retained profits are available; or
- Borrowing from another source to repay the debt.

Alternatively, if the payments are unable to be repaid by the due date of lodgement of the company's (or trust's) tax return, the payments for the year can be added together and treated as an "amalgamated" loan provided there is a written loan agreement which:-

- Is entered into prior to the due date of lodgement of the company's tax return;
- Stipulates a minimum interest rate (i.e. currently 8.27% for the 2024 year; 4.77% for the 2023 year);
- Provides a maximum loan term (i.e. 7 years with no security and up to 25 years with registered mortgage security); and
- Requires a minimum annual repayment each year.

For your assistance we have available a sample of a standard loan facility agreement for use in documenting loan terms and conditions.

If a loan to a shareholder complies with the requirements of Division 7A it will not constitute a loan fringe benefit.

#### **(B) Private company credit loans treated as equity where borrowing company turnover exceeds \$20 million**

Where the borrowing company has a turnover in excess of \$20m, a related party credit loan will be treated as equity rather than debt unless commercial loan tests are satisfied. If the loan is treated as equity, payment of interest would be treated as a frankable distribution and not deductible.

#### **(24) PROFESSIONAL FIRMS & 'INCOME SPLITTING'**

In December 2017 the ATO advised that it was suspending their previously issued guidelines that professional firms (e.g. architectural, engineering, legal, accounting, medical practices, etc) had relied upon for many years in applying their understanding of what is unacceptable income splitting (whereby income is distributed away from the professional worker who has generated the fee income).

In early 2021 the ATO published **PCG 2021/4** which now sets out the ATO's revised compliance approach to the allocation of profits by professional firms. These new guidelines apply from 1 July 2021 and provide a risk assessing scoring table which is intended to allow individual professional practitioners to self-assess their risk against risk assessment factors. We would encourage you to speak with your StewartBrown Manager or Partner if you have any questions concerning these guidelines.

#### **(25) SERVICE ENTITIES**

The ATO has issued guidelines for service entity arrangements. The guide "Your Service Entity Arrangements" (**NAT 13086**) and **TR 2006/2** set out acceptable profit mark-ups in relation to services provided. It is essential that service entities review current mark-ups to ensure that they are within the reasonable guidelines and for appropriate adjustments to be made in the June BAS.

#### **(26) PERSONAL SERVICES BUSINESS**

If your business entity (e.g. company, trust or partnership) derives all or part of its income from the personal services of an individual (i.e. hiring or contracting out your personal services) then you must determine whether the business entity satisfies the personal services business tests. If it fails these tests, the income generated from your personal services may be regarded as wholly that of the individual for tax purposes (rather than the business entity), and as such your business entity may be denied certain tax deductions that may have applied in prior years.

These tests include the following:-

- Results Test
- Unrelated Clients Test
- Employment Test
- Business Premises Test

If your business entity is earning personal services income you must determine whether you satisfy these tests. If you are in doubt please contact us as soon as possible and certainly **before you complete your June 2024 Business Activity Statement**.

Individuals in professional practice should also consider the notes in Point (26) above.

## **(27) DISCRETIONARY TRUSTS**

One of the benefits of discretionary trusts is the ability to stream different types of income to different beneficiaries, and in particular franked dividends and capital gains. This streaming of income provides significant flexibility and tax benefits between the beneficiaries (usually family members). The ATO have now issued further draft guidance to trustees in this area that should be considered when allocating the net income of the trust. Refer to (2) above.

As in prior years and in accordance with the applicable Trust Deed, the trustee of a discretionary trust must resolve to distribute the income of the trust **by the earlier of the date specified in the Trust Deed (if any) or 30 June each year**. Historically, this was undertaken by the Trustees simply holding a meeting (often around the kitchen table) in the final week of June each year to resolve the distribution split between the beneficiaries.

The resolution was then evidenced in a Trustee minute of the meeting which was prepared and signed at the same time as the tax return was drafted. In the view of the ATO this long standing practice is no longer adequate evidence of compliant resolutions.

The ATO has determined that distributions of trust income are to be evidenced as follows:-

- Where the Trustee is streaming franked dividends, the Trustee must not only pass a resolution distributing the income to the beneficiaries by 30 June but must also record (in that character) in the trust's accounts or records by 30 June;
- Where the Trustee is streaming capital gains, the Trustee must not only pass a resolution distributing the income to the beneficiaries by 30 June but must also record (in that character) in the trust's accounts or records no later than two months after the end of the financial year in which the distribution is made (i.e. 31 August);
- Where streaming is not undertaken it is sufficient for the Trustees to pass a resolution prior to 30 June and for it to be documented by a resolution minute post 30 June.

Trusts are under greater scrutiny from the ATO and we recommend all Trustees review their Trust Deeds (the rules of the Trust) to ensure the trust is conducted in accordance with the Deed, including to:-

- Check the vesting date
- Confirm the eligibility of the beneficiaries
- Clarify the definition of "income" and the availability of income streaming
- Check whether a "Family Trust Election" has been lodged or is required

**(28) PAYROLL TAX – WARNING**

The NSW Office of State Revenue continues to increase audit activity in relation to payroll tax. The annual wage threshold for NSW for the year ended 30 June 2024 is \$1,200,000 (we understand that the 2025 threshold will also be \$1,200,000). The payroll threshold includes wages, superannuation, reportable fringe benefits, employee share schemes, payments to employee contractors, and the wages and benefits of “grouped” or connected entities. You must register within seven days of exceeding the monthly wages threshold. The payroll tax rate is 5.45%.

**(29) CONTRACTOR TAX REPORTING SYSTEM**

Businesses that pay contractors in the building and construction, courier, cleaning, road freight, information technology, security, investigation, or surveillance services industries and certain Government entities are required to notify the ATO of payments made to contractors annually. This is known as the Taxable Payments Reporting System.

To determine whether an obligation to report payments to contractors exists, a business needs to assess whether payments to contractors meet the following criteria:

Service	Need to report if:
Building & construction	50% or more of business income (or activity) is building and construction services.
Cleaning	10% or more business income is from cleaning services
Courier or road freight	10% or more of business income is from courier and road freight services. Courier services include delivery.
Information Technology	10% or more of business income is from IT services.
Security, Investigation or surveillance	10% or more of business income is from security, investigation, or surveillance services.
Government entities	Federal, State, Territory and local Government entities (except where an exemption applies).

The reporting relates to actual amounts paid to contractors and needs to include identifying references such as the contractor’s ABN & address. The “Taxable Payments Annual Report” is required to be lodged with the ATO by 28 August 2024.

Where a business (in one of the above categories) does not employ contractors, a nil report should be lodged.

**(30) NON-COMMERCIAL LOSS PROVISIONS**

When a loss from a business activity carried on by an individual or partnership occurs, consideration must be given to the non-commercial loss provisions as to whether the loss needs to be quarantined. There are concessions for taxpayers such as primary producers, artists, etc.

Many “genuine” business losses incurred by individuals continue to be quarantined for tax purposes where income exceeds \$250,000 p.a. Income for the purpose of the test comprises the aggregate of taxable income, reportable superannuation contributions, net investment losses and reportable fringe benefits. The Commissioner may exercise his discretion where he considers that the deferral would be unreasonable and there is objective evidence that the activity is commercially viable. To seek this discretion an application for a private ruling and an evidentiary checklist must be lodged with the ATO.

## FINANCIAL PLANNING & ESTATE PLANNING

### STEWARTBROWN ADVISORY PTY LIMITED

For your information our financial planning division, namely StewartBrown Advisory Pty Limited, offers clients comprehensive advice on Self Managed Superannuation Funds, financial and retirement planning, and estate planning matters generally. Amanda Lee and Peggy Liang are the Directors in charge of this division and are very experienced in providing appropriate and sound financial advice to clients. If you have not met Amanda or Peggy yet we invite you to contact us to arrange a complimentary meeting to discuss your situation and how they and their team can assist you in achieving your financial goals in a tax effective manner.

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