Bottrell Business Consultants

BOTTRELL WEALTH

Winter 2024

With Winter now officially underway, some might be heading north to warm up and others may lean into the cold on the snowfields. Whichever you choose, don't forget the approaching end of financial year.

A slight increase in the Consumer Price Index last month, to 3.6% from 3.5% in March, has led some economists to predict we'll be waiting longer for the first official interest rate cuts, perhaps until the end of next year, with little to no chance of a rate rise in the meantime. While inflation has been relatively stable over the past five months, this is the second monthly increase in a row. The biggest price increases were in the housing, food and beverages, alcohol and tobacco, and transport sectors. Retail spending continues to be weak. The 0.1% increase in turnover in April wasn't enough to make up for a 0.4% drop in March.

The higher-than-expected inflation figures saw Australian share prices take a tumble after reaching a welcome high mid-month. The ASX200 finished the month on a positive note, slightly higher for the month of May. In the US, troubles in the tech sector and a global bond sell-off saw small losses on the Dow, the Nasdaq and the S&P 500 while European markets in London, France and Germany also finished the month on a low.

A strong US dollar along with the uptick in Australia's inflation data saw the Aussie dollar fall from a mid-month peak of just over US67 cents.

Bottrell Business Consultants
45 Hunter St
Newcastle 2300, NSW
P 02 4933 6888
E office@bottrellbusiness.com.au
W https://www.bottrellaccounting.com.au/

93 Lawes Street
East Maitland 2323, NSW

How to end the **financial year** on a HIGH NOTE

As the financial year draws to a close, it's the perfect time to review your financial affairs and set the stage for a successful year to come. By taking care of essential tasks and implementing strategic planning, you can position yourself for a smooth transition and a strong start for the new financial year.

Topping up super

One important item for the To Do list is to top up your super with either concessional (pre-tax) or non-concessional (post-tax) contributions. For example, you could make a voluntary concessional contribution up to the limit allowed and then claim a tax deduction on your personal assessable income for it.

Consider making additional contributions to your own super account or your spouse's account, to take advantage of tax concessions.

If you have unused concessional cap amounts from the previous five years and a super balance less than $500,000 on June 30 the previous year, you may be eligible to make a catch-up (or carry-forward) contribution greater than the annual limit.

Maximising contributions not only helps you build your retirement savings but can also provide valuable tax benefits. But it's critical to be mindful of your caps and to ensure that you make any super contributions before the end of the financial year to meet the deadline.

Reviewing investments

Reviewing your investment portfolio is a valuable task at any time but particularly now.

For example, you could take a look for any capital gains or losses that could be used strategically to manage your tax liability.

Also, it is worth considering how your portfolio performed over the past 12 months against your goal of capital growth, income, or balance.

You may decide to readjust your goals or your investments to help steer performance in the right direction for the next 12 months.

Of course, if you're planning any changes, it's important to check in with us to ensure you're making informed decisions about your investments.

Paying expenses early

Another useful strategy at tax time can be to bring forward any deductible expenses or interest payments before 30 June to reduce your taxable income.

That could include incurring expenses on an investment property, prepaying interest on investment loans, making charitable donations, or claiming eligible work-related expenses.

Make sure you keep detailed records and receipts to support your deductions.

The ATO's myDeductions app is a great place to start for free record keeping and to asst you to be ready for tax time.

Setting up salary sacrifice

As you look ahead to the new financial year, consider whether a salary sacrifice arrangement might be right for you.

Salary sacrifice allows you to divert a portion of your pre-tax salary directly into your superannuation, which effectively reduces your taxable income and boosts your retirement savings.

You will need to think carefully about your living expenses to work out the amount you can afford to contribute to your super, ensuring you do not exceed your concessional (before-tax) contributions cap of $27,500, (which will increase to $30,000 from July 1 2024) to avoid paying any extra tax.

Your employer or payroll department can help you set up a salary sacrifice arrangement.

Checking your budget

This is a good time to revisit your financial goals and how you're tracking, and then put together a strong budget for the new financial year that will help get you further along the track.

Take the time to review your income and expenses and identify any areas where you can cut back spending or improve your income.

This exercise not only helps you understand your financial habits but also allows you to reallocate funds towards your goals, such as paying down debt, building an emergency fund, or increasing your investment contributions.

Consult with professionals

Don't forget to check in with your trusted advisers – financial advisers, accountants, or tax professionals – to make sure you are making the most of any opportunities for financial growth and maximising tax savings.

Taking advantage of our expert advice to review your current financial situation and goals, and checking that you are making the best decisions for you can make a difference. It provides peace of mind, ensures that you are complying with any obligations and, importantly, puts you in the best position to achieve your financial goals.

>> TAX ALERT

June 2024

Tax cuts ease the message of greater ATO oversight

Every taxpayer can look forward to a tax cut from 1 July thanks to the centrepiece of the Federal Budget delivered in May.

On average, taxpayers will save around $36 a week under the new rules, which were legislated in February.[i]

The lowest tax rate in 2024-25 reduces from 19 per cent to 16 per cent, and the 32.5 per cent marginal tax rate reduces to 30 per cent for those earning between $45,001 and $135,000.

The current 37 per cent marginal tax rate will be retained for people earning between $135,001 and $190,000, while the existing 45 per cent rate now applies to income earners with taxable incomes exceeding $190,000.

The Budget also included a commitment to reform current tax laws and give the ATO discretion to stop chasing on-hold historical tax debts of individuals and small businesses.

Boost for tax compliance

Other Budget tax measures include a $2.5 billion crackdown on the shadow economy, as well as other fraud and tax avoidance through upgrades to the ATO's IT systems to enable real-time identification and blocking of suspicious activities.[ii]

A new compliance taskforce will also be formed to focus on recovering lost revenue and stopping fraudulent refunds.

Instant asset write-off retained

Small businesses will be pleased to know that the deadline for the popular $20,000 instant asset write-off has been extended to 30 June 2025.[iii]

Under the instant asset write-off rule, small businesses with an annual turnover of less than $10 million are permitted to immediately deduct eligible assets of less than $20,000, rather than depreciate them.

Key focus areas

The ATO has announced it will be taking a close look at three common errors taxpayers are making in returns lodged this financial year.

These include incorrectly claiming work-related expenses, inflating deduction claims for rental properties and failing to include all income when lodging a return.

Work-from-home expenses will need comprehensive substantiation and rental landlords will need to carefully check their repairs and maintenance deductions.

Meanwhile, existing CGT exemptions for foreign residents buying and selling assets will be tightened.

Unpaid GST and income debts

The ATO has signalled it intends to increase its focus to ensure both individuals and businesses pay their tax and super obligations on time.

For example, there will be a crackdown on businesses failing to pass on $50 billion in undisputed debts for GST and PAYG from employee wages.

Around 65 per cent of this debt is owed by small businesses and the ATO has warned it is returning to its normal, pre-pandemic debt collection practices.[iv]

Changes for trust tax returns

Small business owners who are trustees or trust beneficiaries need to remember new income tax reporting changes commence on 1 July 2024.

Trustees will be required to provide additional information about capital gains tax on the trust's tax return statement of distribution to provide beneficiaries with additional information when completing their trust income reporting obligations.

Trust income from managed funds will also be reported with the additional details.

SG payment reminder

With the new Super Guarantee (SG) payday rules due to start on 1 July 2026, the ATO is reminding employers they need to ensure timely payment of their quarterly SG obligations.

Payments for the fourth quarter (1 April to 30 June 2024) are due by 28 July at the latest, with more frequent payments being encouraged.

Check for unlawful tax schemes

The ATO has warned businesses again about the potential risks of becoming involved in unlawful tax schemes, including structured arrangements incorrectly classifying revenue as capital, exploiting concessional tax rates and obscuring the source of funds or party relationships.

Warning signs for these schemes include zero-risk guarantees, being asked to maintain secrecy and fees or commissions based on the tax saved.

We'd be happy to provide further information or clarification about any of the new tax measures or to provide advice if they affect you.

i https://budget.gov.au/content/factsheets/download/factsheet-col.pdf
ii https://budget.gov.au/content/bp2/download/bp2_02_receipt_payment.pdf
iii https://budget.gov.au/content/factsheets/download/factsheet-sml-bus.pdf
iv https://www.publicaccountants.org.au/news-advocacy/media-releases/2024-25-australian-federal-budget-chalmers-fails-to-charm-small-business-owners

Preparing your family trust for EOFY

With less than a month to go before the end of the financial year (EOFY) rolls around, some important tasks need to be completed for family trusts.

Discretionary trusts (often called family trusts) are the most common trust used in Australia and are generally created to hold and protect family or business assets.

Trustees of family trusts are able to distribute trust income or capital to any beneficiaries they choose.

That means beneficiaries have no entitlement to receive payments in any one year, so one of the key tasks before EOFY is making the necessary trustee resolutions for the current income year.

To ensure the trust's discretionary beneficiaries are presently entitled to trust income, effective resolutions must be made by 30 June, or the date noted in the trust deed. This is particularly important if you wish to make beneficiaries specifically entitled to franked dividends and capital gains this year.

Putting it in writing

Written records of annual resolutions are essential if you wish to effectively stream capital gains or franked distributions to beneficiaries for tax purposes.[i]

If a resolution deals with franked distributions from the trust, trustees are required to put these in writing indicating the beneficiaries specifically entitled to the franked distribution.

When it comes to capital gains, written resolutions are also required and these need to be made by 31 August of the following income year to ensure discretionary beneficiaries are specifically entitled to the capital gain.

However, if some or all of a capital gain forms part of the income of the trust estate, the resolutions need to be made by 30 June, because any capital gain forming part of the trust income cannot be specifically dealt with after a beneficiary has already been made presently entitled to it.

Check family trust elections

It's also vital to check the elections your family trust currently has in place to avoid incurring family trust distribution tax (FTDT).[ii]

If a trustee distributes income or capital to an entity other than the individuals specified in the family trust election, FTDT is payable at the top marginal tax rate (plus the Medicare levy) on the distributions.

The ATO encourages trustees to regularly review their trust's in-force elections. It recommends checking annually whether current elections can or should be revoked, if the specified individuals remain suitable, and the timeframes for varying or revoking elections.

If any new entitled beneficiaries have been added to the trust during the income year, check you are holding their tax file number.

Prepare for new reporting requirements

Trustees also need to ensure they are prepared for the administration changes from 1 July 2024. These changes are part of the Modernisation of Trust Administration Systems (MTAS) project and affect return lodgements for the 2023-24 and later income years.[iii]

The MTAS project was announced in the 2022-23 Federal Budget with the aim of streamlining taxpayer lodgements, improving the accuracy of income tax return information from trusts, and providing better information for ATO compliance activities. The new system is also designed to encourage the 30,000 trusts still lodging paper returns to move to electronic lodgement.

From 1 July 2024, trustees are required to complete four new capital gains tax (CGT) labels in the statement of distribution section of their trust's return. These labels are designed to help notify beneficiaries of their entitlement to trust income and assist with calculation of CGT amount in their tax returns.

Trustees are also required to prepare a new trust income schedule for all beneficiaries receiving income from the trust. Beneficiaries will need to lodge this trust income schedule with their annual tax return.

If you would like more information about EOFY requirements for your family trust, call our office today.

i Capital gains | Australian Taxation Office (ato.gov.au)

ii Family trusts – concessions | Australian Taxation Office (ato.gov.au)

iii Modernising trust administration systems | Australian Taxation Office (ato.gov.au)