SC ACCOUNTING

25 Station Street
Oakleigh VIC 3166
PO Box 93
Oakleigh VIC 3166

Tel. +61 3 9569 7516
Fax. +61 3 9569 6442
info@scaccounting.com.au
www.scaccounting.com.au

CHARTERED ACCOUNTANTS

Director Steven N Creelman CA
Consultant Graeme J Taylor FCA

SMALL BUSINESS TAX PLANNING MEASURES 2015/2016 FINANCIAL YEAR FOR THE CHILD CARE INDUSTRY

Please note with the 2016 financial year end fast approaching, and with the recent budget changes to small business and superannuation, it pays to be mindful of your business and tax opportunities.

We note that owners with multiple LDC's will benefit from these small business changes as they will probably already exceed the $2 million turnover test.

Here is a short summary of small business changes from 1 July 2016:-

- a small business for tax purposes is now one which has a turnover of less than $10 million (up from the current $2 million turnover) which means access to
  - simplified depreciation rules – 30% depreciation on existing assets, 15% depreciation on new assets, immediate tax write off for new assets purchases costing less than $20,000 to 30 June 2017 and thereafter a $1,000 immediate write off
  - simplified trading stock rules with stock variances of less than $5,000pa;
  - simplified method of PAYG instalments calculated by the ATO;
  - option to account for GST on a cash basis and / or have the ATO calculate GST instalments
  - immediate deduction for various startup costs, and 12 month prepayment rule;
  - FBT exemption to work related portable electronic devices such as mobile phones, laptops and tablets ***(useful to offer as salary packages to staff)***
- unincorporated small business entities (T/O less than $2 million) will qualify for a stepped tax discount (starting at 8% then increasing to 16% in 2026/27, capped at a maximum of $1,000 per individual ;
- Company tax rate will reduce to 25% over 10 years, with the company tax rate to come down to 27.5% in 2016/17 (T/O less than $10 million)

SMALL BUSINESS TAX PLANNING OPPORTUNITIES

Tax Planning is all about managing tax obligations with a view to smoothing income on a year over year basis. Huge opportunities exist for small business by:-

- ✓ Deferring income in 2016/17 as company tax rate reduces to 27.5%
- ✓ Bringing forward expenses in 2015/16, scheduled to be spent in 2016/17 to gain a tax deduction at the 30% corporate tax rate;
- ✓ Business' with turnover exceeding $2 million, but less than $10 million will be able to access all the small business tax opportunities above from 1 July 2016 in particular the $20,000 immediate write off of assets (***hold off any capital spends of this nature until after 1 July 2016)***;

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✓ ***Budgets are invaluable to small business***, in particular when it comes to monitoring net profit and cash flow management on a year over year basis. Will 2016/17 be a better financial year than 2015/16? If so bring forward income, if possible or delay expenditure.

INCOME STRATEGIES

Defer receipt of income should you operate on the cash basis;
Salary packaging can minimise tax – can you maximize your super contributions?;
Review investments realised in the period and where **potential capital gains** exist, ensure that you choose the selected parcel of assets that have been held for more than 12 months (50% discounting applies) ; also review your current portfolio of assets to see whether you can absorb any capital gains with any unrealised capital losses ;
Review investments held in joint names with a view to transferring (be mindful of CGT tax implications) income producing assets to the lower income earning spouse/partner (ensures tax on those earnings are minimised);
Defer receipt of bonus payments until start of new fiscal year;

EXPENSES STRATEGIES

bring forward deductions – tax deductible bills due in July 2016 should be paid prior to 30 June 2016 when operating on the cash basis
prepayments for small business entities and non-business individuals – a tax deduction is allowed for expense prepayments of up to 12 months in advance when actually paid, rather than incurred;
superannuation contribution – maximise your concessional super contribution (age group less than 49 years at 30 June 2016 $30,000 ; over 49 years at 30 June 2016 $35,000). Be careful not to exceed these limits and be mindful of restrictions. Please note that from 1 July 2017 the maximum will reduce to $25,000
Bad debts (business) – bad debts, previously returned as income of the business, can be claimed as a tax deduction provided the actual outstanding debt is written off the debtors system prior to 30 June;
Capital allowances (depreciation) – a claim for depreciation is allowed for newly purchased assets based on its useful life (under the STS system, pooled assets are written off at a fixed rate of 30%.; assets first acquired and entering the pool are written off at 15% in the first year and then 30% thereafter— immediate write off for new assets up to $20,000)

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STRUCTURAL STRATEGIES

Do a "Financial Health Check"

- ✓ look at investments - how are they going? What income and capital growth is derived? Are you adequately diversified?
- ✓ look at insurance – adequate income protection, TPD and Life cover, Business Expenses and Trauma insurance?
- ✓ look at super – what is your age? what have you got accumulated? when do you plan to retire?
- ✓ look at wills and POA – do you have a Will? when was it last updated? have your personal circumstances (family and/or assets holdings) changed dramatically?

Review your Family Business / Investment Vehicles

- ✓ What is the Trading Structure? Does it meet your current circumstances? Does it allow for family succession eg CGT implications, Is it tax effective? Does it provide Asset Protection? ***Do you have access to the Small Business Restructure Rollover provisions applying from 1 July 2016? – marvelous business structure planning***
- ✓ Where is your super? Are you paying too much in administration fees? Do you have an interest in managing your own retirement monies?
- ✓ Do you have personal assets owned in a company? Please note that the enjoyment of personal assets owned by a private company may attract unwanted FBT implications?
- ✓ Trust Distributions to Associated Private Company's now have added tax complications and should be reviewed prior to any declaration made – the creation of a Sub Trust arrangement is critical;

Succession and Retirement Planning

- ✓ Are you planning to retire and hand the family business to family members? What succession planning arrangements and discussions have been made amongst the family? Does your legal business structure allow for a smooth tax effective transition?
- ✓ Are you considering a Sale of Business? Do you need a valuation / independent assessment of the Business' value? ***Do you qualify for the Small Business CGT Concessions? – the basic tests for qualification are still $2 million turnover or under $6 million net assets – significant tax savings exist by getting it right.***
- ✓ Have you considered your retirement and the options open to you? Have you considered a stepped approach to retirement where you progressively reduce your working commitments (and income), but complement your reduced income with a TRIS (Transition to Retirement Income Stream)?

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CHILD CARE MATTERS - DID YOU KNOW THAT

- ✓ FBT exemptions apply to child care costs salary packaged by your employees;
- ✓ FBT exemptions apply to minor and infrequent benefits up to $300 per employee eg Christmas gifts, birthday presents etc;
- ✓ FBT exemptions apply to reasonable food and drink meal entertainment provided to staff when there is a training session / seminar of at least 4 hours in duration,
- ✓ You may be able to designate different Workplace sites within your child care business eg kinder verses child care – differing workcover rates can apply

Steve Creelman – In Focus

Steve Creelman has been directly involved in providing financial, management and business improvement opportunities to LDC's for over 20 years, both as an owner operator and as an accountant to the child care industry. Steve has first-hand knowledge of the sector; its demands and the KPI's to achieve in order to be successful. We have developed an arsenal of financial reporting, cash flow and budgeting tools, as well as daily management reporting tools to assist with decision-making and business performance optimisation. We are closely aligned with the ACAV as their internal accountants and business advisors.

Our team is thoroughly knowledgeable on the National Quality Framework and regulatory requirements underpinning the child care industry. We work as an extension of your team to help you successfully grow your business in a challenging environment. We are focused on meaningful outcomes; unlocking your business' potential by exploring opportunities and constantly evaluating your business processes.

Please view our website for further information on our full range of accounting services – www.scaccounting.com.au

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