

TAX MATTERS

tax strategies for you and your business

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INSIDE

- Claiming tax deductions for your website
- Tax-deductible overseas trips
- Selling your business



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Applying for a tax withholding variation

If your negatively geared property is beginning to create some serious cash flow problems, there is a way you can access the large tax breaks it provides before the end of the financial year.

Specifically structuring an investment property to take advantage of negative gearing is a popular strategy for investors wanting to achieve significant taxation benefits.

However, since investors are subject to normal withholding tax from their weekly pay, these benefits often remain with the ATO until investors lodge their annual tax return.

While that may work for most tax deductions, it can sometimes create cash flow problems for property investors with large tax breaks who cannot afford to wait until the end of the financial year.

Lodging an Income Tax Withholding Variation (ITWV) application with the ATO is a viable means of allowing investors to access these tax benefits every week (when they are most needed) to help relieve pressures such as cash flow restrictions.

An ITWV, previously known as a Section 221YD variation, is an annual application investors can send to the tax office, requesting to vary the amount of tax withheld from their salary each pay period by their employer.

The ITWV is valid for a whole financial year i.e. 1 July 2015 to 30 June 2016. If lodged part way through the financial year, it takes into account the tax amount withheld from an investor's salary to date of the application. ITWV applications need to be renewed on an annual basis if investors wish to continue varying the tax withheld from their salary

each financial year. Once approved, investors will have their weekly PAYG reduced for each pay period.

There are a number of circumstances where an ITWV may be appropriate, and sometimes necessary for those who want to reduce their pay as you go (PAYG) withholding rate for the year ending 30 June.

The tax office usually processes ITWV applications within ten working days, but it is worthwhile lodging applications at least 14 days prior to an existing variation from expiring.

Once the ATO has processed an ITWV, they will notify the investor's employer of the "varied" amount of tax to be withheld from their pay each pay period. Those who change jobs during the year will need to submit a new application to the tax office.

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Claiming tax deductions for your website

Designing, creating and maintaining a website for your business can be complicated.

This is why many of today's small businesses employ the services of a web developer and designer to take care of getting a website up and running since they don't have time or expertise to be able to do it themselves.

Often, this can be an expensive venture. But luckily, small businesses can claim deductions for website development costs.

Businesses that incur the cost of developing a website before they begin running their business can claim 20 per cent of the cost each year over five years upon starting up. Businesses that are already up and running with an aggregated turnover of less than \$2 million

can use the simplified depreciation rules;

- If the cost of the website development is less than the instant asset write-off threshold of \$20,000, owners can claim a deduction for the full expense amount in the income year they acquire the expense.
- If the website costs the same or more than the instant asset write-off threshold, owners can allocate it to a general small business pool.

Business owners cannot use the simplified depreciation rules if they choose to allocate expenditure on the software to a software development pool. Business owners are also able to claim an outright deduction for specific running and maintenance costs, such as server hosting fees, domain name and registration fees in the same income year the expenses are incurred.



Tax-deductible overseas trips

Business owners and employees who travel internationally for business-related trips can claim travel expenses as a tax deduction.

If the overseas travel is for personal and business-related purposes, the business-related portion can be claimed as a deduction. The documentation required to be maintained, should show the distinction between personal and business-related activities. Any private expenses incurred must be excluded from your claim.

The purpose of the activity and connection to business must be recorded, as the ATO has strict requirements on what is classified as a travel-related expense. If your trip lasts more than six days, a travel diary must be kept to provide a detailed description of the times, dates, places, duration and the people that accompanied you on the trip. Written evidence, in the form of invoices and receipts, must be retained of the expenses incurred such as accommodation, transport, meals and so forth.

The ATO provides individuals travelling internationally with a reasonable travel allowance rate. This is the reasonable amount employees can claim on an expense for individual components such as accommodation, meals and incidentals, provided their employer pays a travel allowance to cover these costs. The rate is dependent on your salary and the countries you visit.

Selling your business

Business owners planning to sell their business need to consider the tax implications involved and the capital gains tax (CGT) concessions available to them.

To prevent a hefty tax bill and maximise profit, careful planning is required. Owners need to be mindful of the small business CGT breaks available to them, as they can reduce or eliminate the tax payable on the profit from the sale.

Planning ahead is important, especially for those looking to exit the business in a few years, as the time leading up to the business's sale can be used to review its structure. The ATO is monitoring those businesses who restructure too close to the sale of their business.

Restructuring well ahead of the sale date provides owners with the opportunity to access the small business CGT concessions. For example, the mix

of business assets versus non-business assets in a company or trust can drastically affect the eligibility for the tax concessions. Many businesses operating as a company may want to consider the shares of the company being held by a discretionary family trust.

Family-owned businesses who are passing onto the next generation may want to consider a review of the current structure. If the older generation is aged over 55, they may have wider access to the small business CGT concessions.

The four CGT concessions available to small business owners include:

1. The 15 year exemption

Business owners aged 55 or older and retiring or permanently incapacitated, and have owned the business asset for at least 15 years, are exempt from paying CGT when the asset is disposed of.

2. The 50% active asset reduction

An active asset is a tangible or intangible asset that is used or held ready for use in the course of carrying on a business. The capital gain from the disposal of an active business asset is only subject to tax on 50% of the gain.

3. The retirement exemption

There is a lifetime limit of \$500,000 CGT exemption on the sale of an active business asset. For those who are under 55, the proceeds from the sale of the asset must be paid into a superannuation fund or retirement savings account.

4. The small business rollover

For business owners who sell an active asset, the capital gain may be deferred as long as a replacement asset is acquired within a two year time frame.

