



2021 YEAR END TAX TIPS + REMINDERS

There are a number of key changes from 1 July 2021 that you need to be aware of – changes to increase the super guarantee to employees and changes to single touch payroll (STP).

Please read this 2-minute email to ensure you keep up to date with everything tax related that affects you.

Also, as a business owner there are many obligations that you need to consider and action just before and after 30 June each year.

Some of these will help to minimise your tax. Others will reduce your exposure to an ATO tax audit. We have outlined these key areas below to assist you:

1. Brief summary of key dates and actions over next 2 months
2. Key changes you need to be aware of
3. Your 2021 End of Financial Year Reminders and Action Items

Please carefully consider this information and contact us immediately if you have any questions we can answer or if there is anything we can assist you with.

DATE	ACTION REQUIRED + UPDATES
Pre 30 June 2021	<p>Trusts: Trustee resolutions need to be in place to be able to distribute trust income for the 2021 financial year to beneficiaries and avoid being taxed at default tax rates.</p> <p>Companies: Review shareholder loan accounts and make minimum loan repayments (may need to declare dividends).</p> <p>Employee Superannuation: Pay this by 22 June 2021 (check with your software provider) to deduct contributions in the current financial year. <i>Please note that your super payment must clear your bank account by 30 June 2021 for it to be a tax deduction in 2021.</i></p> <p>Complete a stocktake where required.</p> <p>Write off bad debts and scrap any obsolete stock or plant and equipment.</p> <p>Ensure any inter-entity management fees have been invoiced in your accounting system with proper Agreements in place.</p>
1 July 2021	<p>Companies: Tax rate for base rate entities reduces from 26% to 25%.</p> <p>Employee Superannuation: Super guarantee rate increases from 9.5% to 10%.</p>

Single Touch Payroll: Commences for “closely held” employees (family members, Directors, etc).

Professional Firms: New guidance applies for tax treatment on profits of professional services firms.

14 July 2021 (on or before) **Single Touch Payroll Finalisation Declarations** need to be made by 14 July 2021 (extensions can apply for “closely held” payees).

28 July 2021 Quarterly super guarantee payment due (1 April – 30 June 2021).

28 August 2021 **Taxable payments annual report** due for payments to Contractors.

Key Changes you Need to be Aware of

SUPERANNUATION GUARANTEE INCREASES TO 10%

This is the biggest change that will affect you this year.

From 1 July 2021, the Superannuation Guarantee rate will increase from 9.5% to 10%. It is planned to increase by 0.5% each year until it reaches 12% on 1 July 2025.

If any employees are paid on a “total remuneration” basis (a package inclusive of superannuation), this will mean that their take home pay will reduce by 0.5% unless the employer decides to increase their total remuneration by 0.5%.

For employees who are paid wages or salary plus superannuation, then their take home pay will remain the same and the 0.5% increase will be added to their superannuation payments.

ACTION STEP: All employers will need to give immediate action to managing this increase, and they will need to factor in this increase to their cash flow planning for 2022.

SINGLE TOUCH PAYROLL CHANGES

From 1 July 2021, amounts paid to employees who are called “closely held” payees will need to be reported through STP. If you're a small employer you can report these amounts on or before each payday, or you can choose to report this information quarterly. All other employees need to be reported on or before each pay day.

A closely held payee is an individual directly related to the entity from which they receive payments (eg. a family member, a Director of a company or a beneficiary of a Trust).

COMPANY TAX RATE REDUCTION

From 1 July 2021, the company tax rate for base rate entities will reduce from 26% to 25%. This will also reduce the maximum franking rate that applies to dividends paid by base rate companies.

PROFITS OF PROFESSIONAL SERVICE FIRMS

The ATO has released draft guidance (PCG 2021/D2) that is planned to begin from 1 July 2021. This is designed to prevent structures being set up to divert income away from professionals and reducing their tax.

The draft guidance includes a series of tests to identify a professional's risk level, looking at the structure of the business and how its profits are distributed, and whether the structure has any high risk features.

ACTION STEP: All professional service firms (eg. doctors, medical specialists, architects, etc) will need to review their existing structure and possibly make changes from 1 July 2021. Some arrangements that were previously considered low risk may now fall into a higher risk zone.

Your 2021 End of Financial Year Reminders & Action Items

ATO PAYMENT DEFERRALS

We can liaise with the ATO and negotiate a deferral or repayment plan if you are having trouble paying any ATO liabilities. Please contact us immediately if you would like our assistance with this.

SINGLE TOUCH PAYROLL

If you are reporting payments to employees to the ATO using Single Touch Payroll (STP), most businesses will need to lodge a STP Finalisation Declaration with the ATO by 14 July 2021.

Employees will be able to access their Income Statement through their MyGov account.

Small businesses with 19 or less employees and that employed family members were due to start reporting these employees (known as "closely held") through Single Touch Payroll (STP) from 1 July 2020.

However, due to COVID-19 the start date of this has been extended to 1 July 2021. Your small business can start voluntarily using STP earlier than this date.

All other employees should now be reported through STP.

REPORTABLE FRINGE BENEFITS

Where you have provided fringe benefits to your employees more than \$2,000, you need to report the FBT grossed-up amount. This is referred to as a 'Reportable Fringe Benefit Amount' (RFBA) amount, and it needs to be updated for each employee as part of your Single Touch Payroll finalisation procedure for 2021.

STOCKTAKE

Businesses that buy and sell stock generally need to do a stocktake at the end of each financial year as the increase or decrease in the value of stock is included when calculating the taxable income of your business.

If your business has an aggregated turnover below \$10 million, you can use the simplified trading stock rules. Under these rules, you can choose not to conduct a stocktake for tax purposes if the difference in value between the opening value of your trading stock and a reasonable estimate of the closing value of trading stock at the end of the income year is less than \$5,000. You will need to record how you calculated the value of trading stock on hand.

If you do need to complete a stocktake, you can choose one of three methods to value trading stock:

- **Cost price** – all costs connected with the stock including freight, customs duty, and if manufacturing, labour and materials, plus a portion of fixed and variable factory overheads.
- **Market selling value** – the current value of the stock you sell in the normal course of business (but not at a reduced value when you are forced to sell it).
- **Replacement value** – the price of a substantially similar replacement item in a normal market on the last day of the income year.

A different basis can be chosen for each class of stock or for individual items within a particular class of stock. This provides an opportunity to minimise the trading stock adjustment at year-end. There is no need to use the same method every year; you can choose the most tax effective option each year. The most obvious example is where the stock can be valued below its purchase price because of market conditions or damage that has occurred to the stock. This should give rise to a deduction even though the loss has not yet been incurred.

TRUST DISTRIBUTION RESOLUTIONS

Trustees (or directors of a trustee company) need to consider and decide on the distributions they plan to make by 30 June 2021 at the latest. Decisions made by the trustees should be documented in writing, preferably by 30 June 2021.

If valid resolutions are not in place by 30 June 2021, the risk is that the taxable income of the trust will be assessed in the hands of a default beneficiary (if the trust deed provides for this) or the trustee (in which case the highest marginal rate of tax would normally apply).

ACTION STEP: If you haven't already signed your Trust Distribution Resolution for each Trust you have, please contact our office before 30 June 2021 so that we can properly prepare this document for you to sign.

DIV 7A LOAN AGREEMENT MINIMUM REPAYMENTS

When a company makes a loan to a shareholder or an associate of a shareholder, a Loan Agreement needs to be entered into and minimum annual repayments for the loan need to be made before 30 June each year. If these steps aren't taken, then the loan amounts are treated as a deemed unfranked dividend and are taxable at the taxpayer's marginal tax rate – which could be as high as 47%.

ACTION STEP: Ensure that you have made all minimum repayments for any Div7A Loans that you have before 30 June 2021. Please contact us immediately if you are unsure of this, as you may need to declare a dividend from the company before 30 June 2021 to assist with your minimum annual loan repayment.

REPORTING PAYMENTS TO CONTRACTORS

A "Taxable Payments Annual Report" (TPAR) is due for lodgement with the ATO by 28 August 2021 for the following industries:

- Building and construction services
- Cleaning services
- Courier services
- Road freight services
- Information technology (IT) services – including software development
- Security, investigation or surveillance services
- Mixed services (providing one or more of the services listed above)

This report includes a listing and total of all payments and non-cash benefits made to contractors during the year.

PAYROLL TAX

Payroll tax applies to all entities that have an Australian payroll that exceeds state-based limits.

You should note that in addition to normal salaries and wages, the following items are generally also included in payroll expenses if payroll tax applies:

- fringe benefits based on the grossed-up taxable value of fringe benefits;
- all employer contributions to superannuation on behalf of employees; and
- some contractor or sub-contractor fees.

For more detailed information about whether payroll tax applies to your business, please contact our office.

ACTION STEP: The Annual Return/Reconciliation for payroll tax must be lodged by 21 July 2021 (Queensland, Victoria, Northern Territory, Tasmania and WA) or by 28 July 2021 (NSW and South Australia) with your State Revenue Office.

WORKCOVER / WORKSAFE

Your WorkCover/WorkSafe insurer sends an annual reconciliation to all registered employers each year.

In completing your annual reconciliation, you will need to include the following items in addition to normal salaries and wages:

- fringe benefits based on the taxable value of fringe benefits (do not gross-up);
- all employer contributions to superannuation on behalf of employees; and
- some contractor or sub-contractor fees.

For more detailed information about what items to include in the reconciliation statement, please contact our office.

Once the reconciliation is received and processed by your WorkCover/WorkSafe insurer, you will be issued with a final assessment or a refund depending on the instalments you have paid during the year.

ACTION STEP: Complete and lodge the Annual Reconciliation with your WorkCover/WorkSafe insurer by the due date.

GOODS AND SERVICES TAX (GST)

A reconciliation of GST should be performed as at 30 June 2021 to determine if there has been an under or over-payment of GST in the 2021 tax year. If a discrepancy has arisen, then it is possible to adjust a subsequent Business Activity Statement (BAS) to rectify the error, however there are limits imposed on adjustments that can be made in this way.

Income declared on your BAS should be reconciled to income declared on your income tax returns.

Also, please note that you are required by law to substantiate all Input Tax Credit claims with a complying Tax Invoice, and you need to retain these documents for a minimum of 5 years.

ACTION STEP: Complete the annual GST reconciliations, and check that you have all required tax invoices and other supporting documents.

ATO AUDIT ACTIVITY

Please note that the ATO and State Revenue Office are constantly increasing their audit activities. There has been an increase in audit activity for PAYG Withholding, Payroll Tax, WorkCover, GST, Division 7A loan accounts from companies, and Trust distributions from Discretionary Trusts.

We can offer a review of your records and record-keeping procedures if you are concerned about your ability to satisfy an audit.

ACTION STEP: Please contact our office if you would like to request this service.

Last Minute Tax Minimisation Tips

Here's a few final reminders about ways to reduce your tax for 2021:

1. Write-off Bad Debts in your computer system before 30 June 2021.
2. Write-off any trading stock that is damaged or obsolete.
3. Review your Asset Register and scrap any obsolete plant and equipment.
4. Pay for marketing materials, repairs, consumables, office stationery, and donations before 30 June 2021.
5. Ensure employee superannuation contributions are made and received by your employees' superannuation fund/s by 30 June 2021 to allow a tax deduction this 2021 financial year.
6. Realise any capital losses you have before 30 June 2021 to offset against any capital gains you may have made.
7. Pass a properly authorised resolution to commit to the payment of a Director's Fee or employee bonus before 30 June 2021, even if it paid within a reasonable time after 30 June 2021.
8. Raise management fees between entities by 30 June 2021 and ensure that you have a signed Management Fees Agreement / Services Agreement in place to support the transaction and to ensure they are commercially reasonable.

Do You Need Any Assistance from Us?

Feel free to contact our office anytime by phone or email – We're here to help you!

SCANLON RICHARDSON FINANCIAL GROUP

A Level 2, 15 Victoria Street, Hobart, TAS 7000

P 03 6231 3448

E reception@srfg.com.au