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TAXATION

TAX PLANNING FOR BUSINESS PEOPLE

Paper 012-015

CONTENTS

		Page
1.	Introduction To Tax Planning	4
2.	Set Up A System	4
3.	Planning Is A Whole Year Event	5
4.	Meaning Of A Small Business Entity	6
5.	Australian Taxation Office - Comments On Mistakes Made By SMEs	6
6.	Deferring Income	7
7.	Motor Vehicle Expenses	7
8.	Travel Expenses	8
9.	Depreciation - Plant & Equipment, Fixtures & Fittings Etc.	8
10.	Simplified Depreciation Rules – Small Business Entities	9
11.	Depreciable Components Of A Building	9
12.	Depreciation Of Staff Amenities	10
13.	Depreciation Of Primary Production Plant	10
14.	Capital Works Allowance	11
15.	Deduction For Cost Of Conserving Or Conveying Water	12
16.	Superannuation Minimum Contribution	12
17.	Superannuation - Contributions Limits	13
18.	Choice Of Superannuation Fund	13
19.	Prepayments – Small Business Entities	14
20.	Prepayments – For Businesses With Over $2M Turnover	14
21.	Bad Debts	15
22.	Capital Losses	15
23.	"Wash Sales"	16
24.	Plant And Equipment Disposal	16
25.	Stock	16
26.	Negative Gearing	17

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27. Shareholder Loan Accounts 17
28. Primary Producer Or Hobby Farmer 18
29. Deferral Of Losses From Non Commercial Activities 18
30. Staff Bonuses 19
31. Staff Holidays 19
32. Interest On Loan Funds 19
33. Directors' Fees 19
34. Borrowing Costs 19
35. Entertainment 20
36. Research And Development 20
37. Property Owner Deductions 20
38. Gifts 20
39. Minor Benefits 21
40. Audit Fees 21
41. Salary Packages 21
42. Fringe Benefits Tax Payment (Accruals Basis) 21
43. Commissions Owing (Accruals Basis) 21
44. Interest Owing (Accruals Basis) 22
45. Salaries And Wages (Accruals Basis) 22
46. Commercial Bills (Accruals Basis) 22
47. Rent (Accruals Basis) 22
48. Shareholding Investment Expenses 22
49. Taxation Advice 22
50. Motor Vehicle Expenses 22
51. Bad Debts Recovered 23
52. Personal Service Income 23
53. Goods And Services Tax 23
54. Creditable Purpose Calculation 24
55. Pay As You Go Tax (PAYG) 24
56. Small Business Entities 24
57. Superannuation Funds – Taxation Treatment 25
58. Valuation Of Natural Increase 25
59. Investments In Management Investment Schemes 25
60. Student Loan Repayments 26
61. Fuel Tax Credits Expansion 26
62. Private Use Of Assets 26
63. Professional Advice 27

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ADDENDUMS

012-015a Travel Diary....28
012-015b Reasonable Travel & Meal Allowance Expenses....29
012-015c Income-Producing Building Write-Off Rates....32

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Paper 012-015

1. Introduction To Tax Planning

Tax planning is a perfectly legitimate activity; tax evasion is illegal.

All taxpayers are entitled to arrange their affairs within the limits of the law so that they pay a minimum amount of tax.

2. Set Up A System

The Australian Taxation Office is adopting a tougher attitude towards small businesses.

The Australian Taxation Office has published a number of publications including:
- "Record Keeping for Small Business"
- "GST for Small Business"

The Australian Taxation Office takes the view that, with the publication of these and other various booklets, they've given an adequate indication of the type of systems that they expect small business operators to implement, so that the income tax returns and business activity statements prepared for those businesses are accurate. The Australian Taxation Office has indicated that taxpayers breaching the guidelines, particularly in matters such as keeping motor vehicle log books and valid tax invoices, will be penalised.

Business records must be accurate and retained for, at least, five years after the taxation assessment has been issued. (However, some other legislation requires accounting records to be kept for a longer period e.g. corporation law requires companies to retain accounting records for seven years or until an asset is sold for capital gains tax purposes).

Tax is a large cost for a small business.

To legally minimise tax and ensure you're not continually in dispute with the Australian Taxation Office, will require the business to establish a system to ensure that the record keeping of the business complies with the income tax guidelines.

Whilst establishing the system, the business person should be seeking advice from a professional accountant as to the most appropriate structure to use in the business (sole trader, partnership, discretionary trust, unit trust or company) to keep tax to a minimum with consideration for asset protection, costs, legal requirements and various other matters.

It is also necessary to plan in the business' cashflow forecasts when various government imposed payments are due. In particular, GST payable, PAYG withholding, income tax instalments and the payment of the actual business income tax debt.

In one respect, the payment of tax means that your business is probably trading satisfactorily, in that it has had to pay tax. At the same time, it is prudent to ensure that a full review has been made of all aspects of your system and structures being utilised for your business, so as to ensure you are legally minimising this very significant cost.

3. Planning Is A Whole Year Event

Tax planning traditionally is something that is thought about in late May or June of each year, however it is best to consider tax planning as essential from the very beginning of a financial year, especially considering cashflow and seasonal factors can greatly affect your ability to prepare for tax planning at the last minute.

If your business is treating tax planning as something to be done only in June - it is missing an opportunity of controlling one of a business' major expenses - income tax.

At the beginning of each financial year, the business operator, with his/her accountant should review all aspects of the business' operations, including the structure in which the business operates, to see whether all aspects of the system and the structure are still appropriate.

In many businesses after wages and occupancy costs, tax is the next biggest cost. It has the potential to take away 30% of your profit, if you are operating as a company and 49%, if you are operating as an individual. The resultant tax bill can be very high. With some pre-planning and thinking throughout the year, rather than at the end of the financial year, it may be possible to reduce some of that tax.

The first thing to examine is the structure in which the business operates. Whilst there are many benefits from operating a business through a company, it can also be a significant disadvantage under the capital gains tax rules.

Whilst there is some commercial protection through the limited liability aspect of a company and you are able to retain some of the profits in the business, there is also a down side. This primarily applies when the owners want to sell shares in the company.

For further information, refer to:
Paper 012-020 - Capital Gains Tax - Introduction
Paper 012-021 - Capital Gains Tax Concessions For Small Business
Paper 012-045 - Company Tax

The utilisation of a family discretionary trust should also be considered.

Trusts are ideal structures for the starting, expanding or acquisition of businesses or assets. As long as the beneficiaries have been widely drawn in the trust deed, it enables assets to be passed on to future generations without incurring any tax or death duties (which currently do not apply - but may do so in the future). The Taxation Laws have additional rules, which must be satisfied by trusts to claim losses carried forward and bad debts. Refer to the following papers:
Paper 012-020 - Capital Gains Tax - Introduction
Paper 012-021 - Capital Gains Tax Concessions For Small Business
Paper 012-046 - Discretionary Trusts - Taxation Treatment
Paper 012-047 - Unit Trusts - Taxation Treatment

Another matter to be considered in the planning stage is the amount of contributions to be made to superannuation funds and ensuring that the business will have sufficient cashflow available to fully utilise the superannuation contribution limits that are available.

4. Meaning Of A Small Business Entity

A small business entity is one, which has an aggregated turnover in the prior year of less than $2M or has, or will likely have, a turnover of less than $2M in the current year. If eligible, a small business entity is able to choose the concessions, which are most appropriate to their business' needs (subject to satisfying any existing eligibility criteria, not related to business size) and will not be obligated to adopt any concessions not suited to their requirements. These concessions are:

- CGT Fifteen Year Asset Exemption
- CGT 50% Active Asset Reduction
- CGT Retirement Exemption
- CGT Rollover Provisions
- Simpler Depreciation Rules
- Simplified Trading Stock Rules
- Immediate Deductions for Certain Pre-Paid Business Expenses
- Choice to Account for GST on a "Cash" Basis
- Annual Apportionment of Input Tax Credits for Acquisitions and Importations that are partly creditable
- Choice to pay GST by instalments
- FBT Car parking Exemption
- PAYG Instalments based on notional tax

Small business entities also have the benefit of a limited two-year amendment period.

5. Australian Taxation Office - Comments On Mistakes Made By SMEs

The Australian Taxation Office conducts record keeping audits on an ongoing basis. The most common mistakes that they have identified made by SMEs include:

- failure to record cash income and cash expenditure
- failure to account for personal drawings
- errors in reconciliation of takings to bankings
- no record of goods taken from stock for own use
- failure to meet Fringe Benefit Tax (FBT) requirements
- failure to keep cash register tapes
- insufficient details on cheque butts
- inadequate stock control procedures and no stocktakes
- receipts and invoices not kept
- irregular banking procedures combined with insufficient documentation to support gross income figures
- failure to issue receipts
- motor vehicle expenses - taxpayers unaware of obligation to distinguish between private and business use; inadequate records; and log books not being kept accurately

These are obviously the areas that the Australian Taxation Office will be closely examining when conducting future audits.

In planning your system for the minimisation of income tax, care should be taken to ensure the business fully complies with the items listed.

This paper now considers general tax planning matters under various headings.

6. Deferring Income

Deferring the derivation of income until after the end of a current financial year, if it occurs in the normal course of business, may be tax effective as there is a deferment of tax until the next year. Though artificial arrangements to defer income may be penalised, some items to consider include:

- Postpone the disposal of an asset that will produce an assessable gain that will be subject to capital gains tax. This is achievable by deferring signing the contract for sale until after the 30th June to delay the capital gains tax. (The date of signing the contract triggers potential capital gains tax – not the settlement date).
- Taxpayers, on a cash receipts basis, are not assessed on income not received by them, even if it is owing to them. Taxpayers cannot be assessed simply because they did not seek payment of money due to them.

You need to be careful in planning the deferment of income and seek professional accounting advice.

7. Motor Vehicle Expenses

The costs of operating a motor vehicle may qualify as an income tax deduction or, alternatively, part of the expenses of operating a motor vehicle may be tax deductible.

Expenses could include:

- automobile club membership
- fuel
- oil
- repairs
- registration
- insurance
- service costs
- interest
- depreciation/lease payments

There is an upper limit on the value of a vehicle, on which you can claim a depreciation deduction.

Whether you will be able to claim a tax deduction for your vehicle depends on whether it is used in your business for the production of income.

There are now two choices for claiming of motor vehicle expenses under the *Australian Income Tax Act*:

<u>Cents Per Kilometre Method</u>
This is a rate per kilometre that the Taxation Commissioner has established which can be used, based on a reasonable estimate for up to 5,000 business kilometres with the applicable rates varying each year.

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Log Book Method

A log book has to be kept for a minimum of twelve consecutive weeks. In the log book should be recorded all usage of the motor vehicle for business and private purposes. Based on the results of the twelve weeks, the percentage of business use for the motor vehicle can be determined. As long as there is no change in the method of utilisation of the vehicle, the percentage so established can be utilised for a five year period. At the end of the five years, a new log book has to be maintained.

What the business needs to determine is which of the four motor vehicle cost methods will be utilised for individual vehicles.

For further information, refer to Paper 004-011 - Systems Required To Obtain A Taxation Deduction For Motor Vehicle Expenses.

8. Travel Expenses

Full substantiation should be maintained of all travel and accommodation expenditure incurred by a taxpayer or staff.

If the travelling is interstate or overseas for less than six nights, written evidence of expenses is required.

If the travel interstate or overseas is for six nights or more, written evidence of expenses and a travel diary should be maintained. The travel diary should contain details of:

- date
- location
- person saw or activity
- company
- matters discussed
- time started/time finished

A sample of a travel diary is contained in Addendum 012-015a.

It is recommended that, for all overseas travels, a full travel diary is maintained and that as many receipts as possible are obtained.

The overseas travel expenses may also be eligible for claiming under the Export Market Development Grant. Refer to Paper 014-030 - Export Market Development Grant.

If you wish to claim 100% of an overseas trip as an income tax deduction, you will have to be able to account for what you did throughout the trip, especially on weekdays. If it is found that there is a proportion of private expenditure whilst travelling overseas, then that proportion will not be allowed as an income tax deduction.

Reasonable Travel Allowance Expenses - The Australian Taxation Office can allow reasonable travel allowance expenses, based on salary levels and destination, for travel, accommodation, food, drink and incidentals. Receipts do not have to be produced in support of these claims if you have paid a valid and reasonable travel allowance that is reported separately on the PAYG Payment Summary. Details of the reasonable amount for 2014/15 are attached as Addendum 012-015b.

9. Depreciation - Plant & Equipment, Fixtures & Fittings Etc.

The *Income Tax Act* allows a taxpayer, who has acquired plant and equipment, fixtures and fittings, motor vehicles etc., for use in their business, to depreciate that asset over its useful working life.

However, depreciation does not start on a depreciating asset that is acquired solely for use in a business that has not commenced until the business is actually in operation.

Two methods can be used:

- The Prime Cost Method
- The Diminishing Balance Method

The Prime Cost Method allows an equal annual deduction for depreciation to be claimed, whilst the Diminishing Balance Method has the effect of claiming higher depreciation when the asset is newer and lower depreciation, as the asset gets older.

Taxpayers can assess what they consider is the estimate of effective life of an article of plant and equipment as an alternative to utilising the Taxation Commissioner's published list of depreciation rates allowable for various types of plant and equipment, fixtures and fittings etc.

If you wish to utilise a shorter effective life than that given by the Commissioner of Taxation in the Tax Office list, you will need to be able to justify the utilisation of the shorter effective life.

R&D Plant - companies can claim the full value of R&D plant consumed in or associated with R&D activities. The cost of depreciation is included with the other eligible R&D expenditure; it is then able to be claimed:

- For companies with turnover of under $20m – a tax refundable rebate of 45% of the eligible R&D expenditure
- For companies with turnover of over $20m – a tax non-refundable rebate of 40% on the eligible R&D expenditure.

For further information, refer to Paper 012-009 – R & D Tax Incentive.

Special rules apply to a small business entity. (Refer to Item 10).

10. Simplified Depreciation Rules – Small Business Entities

A business which satisfies the $2M aggregated turnover test qualifies as a small business entity and qualifies as a 'small business entity', is able to utilise simplified depreciation rules.

If a business qualifies as a 'small business entity' then the following items apply for depreciation:

- Small business entities are able to claim immediate deductions for any asset costing less than $1,000 and all assets, other than buildings, will be allocated to the small business general pooling, and deducted at 15% in the first year and 30% in the subsequent year.

11. Depreciable Components Of A Building

In many cases, various sections of a building are depreciable as plant and equipment.

A building is not normally depreciable unless it is an item of plant. The exception is farm buildings. (See Item 14 – Capital Works Allowance).

Many items within a building can be subject to depreciation. These include:

- air-conditioning

- hot water heaters
- fans
- light fittings
- removable office partitions
- free standing cupboards
- mechanised roller doors
- electric stove, refrigerators and dishwashers
- cranes/hoists
- swimming pools
- saunas/spas
- gymnasium equipment
- telephone systems
- PABX equipment

When a building is acquired, details of the value of the plant and equipment contained within the building should be obtained from the vendor, or if this is not possible, a detailed site inspection should be conducted and a tally made of the eligible plant and equipment included in the building. This equipment can then be depreciated. Assistance in the preparation of such a report can be obtained from quantity surveyors who will certify to the value of depreciable plant and equipment included in the building.

If any of the plant and equipment is subsequently scrapped then a taxation deduction can be claimed. The amount of the plant and equipment scrapped is the difference between the written-down value of the plant and equipment and the amount obtained when the item was scrapped, which would normally be ‘nil’.

12. Depreciation Of Staff Amenities

If the taxpayer owns the building, and it includes staff amenities and the building is utilised for income producing purposes and the employees who utilise the facilities are the employees of the taxpayer. Then a special employees’ amenities depreciation rate of 33.1/3% prime cost and 50% diminishing value is available to the taxpayer for facilities provided to employees, which would include:

- clothing cupboards
- first aid facilities
- rest room facilities
- recreational facilities
- or meal facilities

The write-off does not apply to the cost of building a rest room, as that is not a unit of property. It covers the items listed, together with plumbing, fixtures and fittings, tiling etc.

13. Depreciation Of Primary Production Plant

In addition to the normal items considered as plant, primary producers can depreciate fences, dams and other structural improvements. Structural improvements extend to accommodation provided to employees, tenants or share-farmers.

The land on which the improvements are situated must be 'used for the purpose of agriculture or pastoral pursuits'.

For further information on depreciation, please refer to Paper 037-022 - Depreciation.

14. Capital Works Allowance

Part of a building may include plant, which can be depreciated.

In addition, a capital allowance may be available to a taxpayer on the cost of the construction of a building, depending on the commencement date of the construction of the building and depending on the use to which the building is put.

The allowance includes structural improvement, where construction commenced after 27th February 1992. The rates have varied over the years. The rates that are currently available for construction that commenced after 27th February 1992 are as follows:

- Short term travel and accommodation - 4% of the construction cost
- Industrial buildings - 4% of the construction cost
- Other income producing buildings or structural improvements - 2.5% of the construction cost

The Australian Taxation Office considers construction of a new building to commence with the pouring of footings or the sinking of pylons. Activities such as clearing the land or planning the building are considered steps preliminary to the commencement of construction.

The amount on which the deduction is based is the expenditure of a capital nature in respect of the construction of a building or in respect of the construction of an extension, alteration or improvement of a building. The expenditure must be in respect of construction.

Costs of acquiring land are not part of the construction costs.

Site preparation costs, such as land clearing and the costs of demolishing existing buildings are not costs of construction.

Landscaping costs are not eligible for the building allowance.

However, costs such as architect’s fees, engineering fees and foundation excavation costs are eligible, even though they occurred prior to the commencement of construction.

The costs of structural improvements are eligible for the building allowance, where construction commenced on or after the 27th February 1992. This recognises that structural improvements may be an integral part of a business operation.

The allowance will not be available for improvements which 'constitute mere changes to the landscape', such as golf courses, landscaping and playing fields.

Construction costs do not include the profit margin earned by the builder/developer.

If you acquire a building, you will have to determine from the builder/developer/owner the actual construction cost.

The Australian Taxation Office has recognised that taxpayers may occasionally have difficulty in obtaining details of the correct construction cost, because builders/developers are reluctant to tell them that cost as it would reveal their profit margin.

Where it is warranted, a taxpayer will be allowed to base the construction cost calculation on an estimate of the construction cost prepared by a quantity surveyor.

It would be prudent to ensure that a declaration, as to the cost of construction of a building or structural improvement, is included as a necessary disclosure to be made as part of the contract for the purchase of a property and that information must be disclosed prior to settlement. For further information refer to Paper 012-091 - Tax Planning - Purchase Of A Business.

If you are acquiring a building for income producing purposes, and the building was constructed (in the case of a non-residential income producing building) after the 20th July 1982 and (in the case of a residential income producing building) after the 7th July 1985, you should seek professional advice as to what building allowance, if any, might be applicable to that building. Refer Addendum 012-015c - Income Producing Building Write Off Rates.

The building allowance deduction is a flat 4% or 2.5% of the original construction cost, depending on the date of construction. The write-off is available for forty years, if the rate is 2.5%, and twenty-five years, if the rate is 4%, from the date when the building is first used. The time limit is not affected by actual deductions claimed.

If a deduction is not claimed for several years because the building is not producing income in these years, the time limit for claiming the deduction will not be extended.

If the building that you are interested in was constructed after 1982, but before 1992, you should seek professional advice as to the applicable rates of building allowance that were available during those years.

15. Deduction For Cost Of Conserving Or Conveying Water

A special taxation deduction is available for primary producers who may claim a deduction for capital expenditure on water storage and farm reticulation systems. This deduction is available over a three year period. One third being claimed in the year of expenditure with the balance being claimed, one third each, in the following two years. If you incurred these expenses after 12 May 2015, you can deduct the whole amount in the income year in which you incurred the expenditure.

If you are conducting a business of primary production, you should seek professional advice on the type of expenditure, which is eligible for this deduction.

16. Superannuation Minimum Contribution

Employers must pay superannuation minimum contributions to all employees except for:

- employees who earn less than $450 in each month throughout the relevant income year;
- employees under eighteen years of age, not working full time (less than thirty hours per week).

The contribution made is 9.50% of the employee's ordinary time earnings.

The contribution is based on the employee’s ordinary time earnings. Ordinary time earnings include:

- Earnings in respect of ordinary hours worked
- Casual Loadings
- Directors’ Fees
- Sick Pay
- Shift Loading
- Commissions
- Piece rates where no ordinary hours of work stipulated
- Performance and Christmas bonuses

Ordinary earnings do not include:

- Overtime payments, except in certain circumstances
- Fringe Benefits
- Lump Termination Payments made to employees on termination of employment in lieu of:
  - Unused Annual Leave
  - Unused Long Service Leave
  - Unused Sick Leave

Superannuation payments have to be made at least quarterly. The quarterly cut-off dates are:

Period	**Due Date For Payment**	**Due Date For Lodgement Of Statement**
1st July to 30th September	28th October	14th November
1st October to 31st December	28th January	14th February
1st January to 31st March	28th April	14th May
1st April to 30th June	28th July	14th August

If the payments are not made by the due dates, then a superannuation guarantee charge payment has to be paid. This includes a penalty interest and this amount is not tax deductible, whereas the normal superannuation minimum contribution payments are tax deductible if paid to a complying superannuation fund before the due date for payment.

If the superannuation is paid but outside the due date for payment, the amount paid to the superannuation fund can now offset against the superannuation guarantee charge, providing the payment is made before certain due dates. This will often result in only the penalties and interest remitted to the Australian Taxation Office without the requirement for a doubling of superannuation paid to employees and to the Australian Taxation Office as was the case before recent amendments were passed through parliament.

17. Superannuation - Contributions Limits

The Aged Based Limits are:

Age	**Maximum Contribution From 01/07/2015**
Under 49	$ 30,000
Over 49	$ 35,000
Self-employed	Same as for other taxpayers

Persons under sixty-five years old can make superannuation contributions, whether or not they are working. The superannuation contribution can offset capital gains earned from the sale of an asset. (Refer to Item 23 – Wash Sales).

18. Choice Of Superannuation Fund

Employers have to offer employees a choice of superannuation fund to which contributions of superannuation are made. The choice regime only applies to superannuation guarantee contributions. Some employees, principally those covered by state awards or registered agreements will not be eligible for the choice of superannuation fund legislation.

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19. Prepayments – Small Business Entities

There are different treatments for prepayments for a small business entity, i.e. turnover under $2M, to that which relates to a business with a turnover in excess of $2M.

This section relates to prepayments for a small business entity with a turnover under $2M. Prepayments are available for a small business entity with a three year average group turnover of less than $2M.

A small business entity is entitled to a deduction, where the relevant services will be wholly provided within thirteen months of the date of expenditure. Deductible expenses would normally include items such as:

- office supplies;
- stationery;
- insurance;
- rent;
- lease payments;
- interest;
- advertising;
- maintenance contracts.

20. Prepayments – For Businesses With Over $2M Turnover

For businesses with a group turnover of $2M or more.

There is an exemption for prepayments of 'excluded expenditure'.

Any taxpayer that incurs a prepayment of 'excluded expenditure' will not be subject to the general prepayment rules, or the twelve-month prepayment rule.

Excluded expenditure includes:

- payments of less than $1,000 (therefore all prepayments of less than $1,000 are deductible in the year that the payment is made, subject to the payment being 'otherwise deductible');
- required to be incurred by a law or a court order;
- under a contract of service (salaries and wages);
- it is of a capital, private or domestic nature.

The deduction for the prepayment is spread over the period during which the service or benefit will be provided. This is known as the 'eligible service period'. If this period is more than ten years, the prepayment deduction is allocated over ten years.

The deduction that a taxpayer can claim each year is calculated:

$$\frac{\text{Number Of Days The Payment Covers In The Income Year}}{\text{Total Number Of Days To Which The Prepayment Relates}}$$

The deduction available is calculated:

$$\frac{\text{Expenditure x Number Of Days The Payment Covers In The Income Year}}{\text{Total Number Of Days To Which The Prepayment Relates}}$$

e.g. pre-payment made by a business that is not a small business entity on the 10th June 2012 for rental of premises for the next twelve month period. The rental amount is $65,000. The amount claimable in the year ended 30th June 2012 will be:

$$\frac{\$65,000}{1} \quad x \quad \frac{20}{365} \quad = \quad \$3,561$$

The amount claimable in the year ended 30th June 2013 will be:

$$\frac{\$65,000}{1} \quad x \quad \frac{345}{365} \quad = \quad \$61,439$$

21. Bad Debts

An integral part of tax planning is to ensure that every business reviews its debtors' list prior to the 30th June and physically writes off any bad debts, so as to secure an income tax deduction in that current year.

Creating a provision for a doubtful debt is not the same as writing off a bad debt. An income tax deduction will not be obtained for creating a provision for doubtful debts.

The write-off of the bad debt should be confirmed by a Board of Directors' Meeting, in the case of a company, a Trustee's Minute in the case of a trust or a General Resolution that is recorded in writing by a Partnership or a Sole Trader.

The bad debt write-off should then be reflected by a journal entry and the bad debt actually removed from the Debtors' Ledger.

The business can continue to chase receipt of the debt that has been written off as bad and if it is subsequently recovered, the amount has to be brought to account as income (bad debt recovered) in the year in which it was recovered.

22. Capital Losses

As part of tax planning every business should review the quantum of capital losses (if any) of the business and review assets, which are owned by the business, to determine whether any asset should be sold, so as to realise a capital gain, which can be offset against the capital loss in that current financial year.

The capital loss can be crystallised by contracting the sale of an asset in the current year, even if settlement does not occur until after the 30th June. (Refer to Item 23 "Wash" Sales).

This is because, for capital gains tax purposes, the sale is deemed to have occurred at the date of the contract.

Capital losses can only be written off against capital gains.

If there are no capital gains in the year that a capital loss is incurred then the capital loss is carried forward to the next and subsequent years (if need be) until a capital gain emerges that the capital loss can be written off against.

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23. "Wash Sales"

The Australian Taxation Office has issued a ruling that it says relates to "wash sales". This is a situation where shares in companies listed on the stock exchange are sold so as to crystallise the capital loss and then shortly thereafter the taxpayer, or an associate of the taxpayer, purchases shares in that corporation on the Australian Stock Exchange. The Taxation Office ruling considers that this as an illegal activity and therefore the Australian Taxation Office believes it can apply Part IVA anti-tax provisions to cancel deductions or benefits from "wash sales" and apply penalties. If Part IVA applies, the ATO is able to amend returns for a period of four years even for Small Business Entities.

For further information, refer to Paper 012-020 - Capital Gains Tax - Introduction.

24. Plant And Equipment Disposal

A review should be made of the business' Asset Ledger or Depreciation Schedule to identify any plant and equipment that is no longer used in the business.

Consideration should then be given to selling that plant and equipment or scrapping it and disposing of it out of the business, so that the investment in that plant and equipment can be written off at the written down value at the 30th June, and an income tax deduction obtained.

25. Stock

Stock on hand should also be reviewed prior to 30th June and, if there is any obsolete or damaged stock, it should be removed from the stock and either sold or dumped, so that when the physical stocktake is taken there is no value included in the stocktake for this stock.

Removal of stock in this manner gives the business an income tax deduction for the value of the stock removed.

A decision should be made prior to 30th June each year of the valuation method for stock for the purposes of the business' income tax return.

Under the *Income Tax Act*, a business can value each item of stock at the lower of cost or net realisable value. Management needs to determine the formula that will be utilised for the valuation of stock.

If the taxpayer has a turnover of under $2M, the taxpayer is able to prepare its income tax return under the Small Business Entity regime.

As a small business entity, the taxpayer does not have to account for changes in the value of trading stock or do stocktakes for tax purposes where the difference between the value of the opening stock on the initial stocktake and a reasonable estimate of the closing stock is $5,000 or less.

26. Negative Gearing

Negative gearing, or making a loss on investments, is one way to reduce tax.

As part of the tax planning exercises, business people should examine whether they wish to enter into a negative gearing exercise to create a tax loss in the current financial year.

This can be done in a number of ways, including borrowing money to buy property or shares, where, because of the interest paid and other expenses - in the case of a property - rates and insurance etc., there will be a loss in the current financial year, (in that the expenses exceed the income from the investment) which is deductible for income tax purposes.

However in setting up a negative gearing investment, the business person needs to be aware of the consequences of an increase in interest rates and the cashflow requirements to be able to meet the ongoing expenses of maintaining the investment in property, shares or whatever other type of investment is involved.

There would need to be an expectation of a substantial gain from the investment to warrant the outlays.

You should also be aware that capital gains tax may be incurred when the asset is finally sold.

Entering into a negative gearing situation can be worthwhile, but it also can contain many traps and it is therefore recommended that professional advice be sought from an accountant or solicitor before embarking on these types of investments.

27. Shareholder Loan Accounts

Many private company transactions with shareholders such as loans (with certain exceptions), payments, advances and other credits may give rise to be deemed Unfranked assessable dividends (subject to the company having a distributable surplus). The transactions may apply to:

- Loans and advances to shareholders and associates.
- Any additions or changes made to loans (this is called freshening up existing loans).
- Payments of money or property for the benefit of shareholders or associates except where FBT applies.
- The forgiveness of debts owed by shareholders (or associates) regardless of when the debt was created.

The exceptions include:

- Agreements in writing on commercial terms with interest (at benchmark interest rates) and prescribed payments of principal and interest over a period of twenty-five years (if fully secured by mortgage over real property) or seven years for any other loan.
- Loans in the ordinary course of business.
- The loan has been repaid in full by the end of the year in which it was made.

The relevant amounts paid, lent or forgiven that are not excluded as outlined above, will be deemed to be assessable dividends in the hands of shareholders or associates to <u>the extent that there are realised profits</u> in the company with the dividend not being eligible for franking.

All of this highlights the necessity for any loan payments that have been made to a shareholder or associate to be well documented with formal loan agreements, minutes of Directors' Meetings and the Loan Agreements to express in well-defined terms the conditions of the loan including when it is repayable, commercial interest rates and security.

28. Primary Producer Or Hobby Farmer

Many people conducting businesses are also involved as primary producers.

General guidelines as to whether a primary production activity will be accepted by the Australian Taxation Office as being a legitimate primary producer or a hobby farm include the following:

- The intention or potential to make a profit from the farm.
- The size and scale of the activity being undertaken at the farm.
- Whether the activity is carried on in a businesslike manner.
- Whether the person has previous experience in similar business activities.
- Whether the activity would be more properly described as a hobby or recreational activity.

The deferral of losses from non-commercial activities rules do not apply to individual primary producers carrying on business who have assessable income from non-primary production sources, excluding net capital gains of less than $40,000 in an income year.

29. Deferral Of Losses From Non Commercial Activities

Individual taxpayers carrying on a business activity (either as sole traders or as a member of a partnership) may only claim a loss from that activity against their other income, if the adjusted taxable income (taxable income + reportable fringe benefits + reportable superannuation contributions + net investment losses) is below $250,000, and they satisfy one of the five tests as follows:

1. The activity produces an assessable income of at least $20,000. This is the gross assessable income of the business prior to any allowable deductions being offset against it.

2. The particular activity has produced a taxable income in three of the last five years. In determining taxable income, tax losses from the activity which have not been recouped in an earlier income year are disregarded.

3. The greater of the reduced cost base or market value of real property (i.e. land and buildings) used in the business on a continuing basis is at least $500,000. These assets are only business assets and therefore exclude dwellings and adjacent land used in association with the dwelling that is used primarily for private purposes.

4. The total value of other assets, excluding cars, motor vehicles and similar vehicles used in the business on a continuing basis, is at least $100,000. This relates to the value of assets, other than land and buildings, used on a continuing basis in carrying on the business.

   This could include:
   - trading stock
   - debtors
   - trade marks
   - patents
   - copyright etc

5. If none of tests one to four are satisfied, the Australian Taxation Office can make a decision if they believe it would be unreasonable to deny the losses to be offset against other income because either:
   - the business activity has been affected by special circumstances outside the control of the taxpayer (such as prolonged drought, flood, bush fire or other natural disaster); or
   - the business activity has commenced to be carried on and because of its nature, one of the tests cannot be satisfied, but there is an objective explanation that it will either pass one of the tests or produce assessable income within a reasonable period.

These rules need to be taken into consideration in assessing whether losses can be claimed in an individual's income tax return.

30. Staff Bonuses

If there are staff bonuses payable and you wish to obtain an income tax deduction in the current year, then you should draw the cheque for payment of the staff bonuses prior to 30th June and PAYG Withholding tax deducted. If bonuses are paid, be aware that they will likely also have superannuation payable on them in most circumstances.

31. Staff Holidays

Businesses cannot obtain a deduction for provision for holiday pay in their taxation return. Holiday pay is only a deduction when the amount is actually paid to the employee. Therefore, if it is practicable to encourage staff to take holidays prior to 30th June so as to obtain an income tax deduction in the current financial year.

32. Interest On Loan Funds

Interest can be claimed in the business' income tax returns on loans taken out for business purposes or to buy properties and/or shares.

33. Directors' Fees

Cheques should be drawn for directors' fees prior to 30th June and PAYG Withholding tax deducted.

34. Borrowing Costs

Borrowing costs on loans can be claimed over the shorter of five years or the term of the loan.

35. Entertainment

Entertainment is not deductible unless it is provided as a fringe benefit and Fringe Benefit Tax has been paid. Entertainment does not include meals on overnight business travel, but it does include business lunches and social functions. This is a complex issue and we recommend you speak with your taxation adviser in regards to what is eligible for a tax deduction and what is not.

36. Research And Development

Special conditions exist for businesses that incur expenses on research and development.

Research and Development Program provides a refundable tax credit at a rate of 45% on eligible research and development expenditure for firms with an annual turnover of less than $20M. For businesses with turnover of more than $20M, the tax credit will be non-refundable and relate to 40% of research and development expenditure.

For further information, refer to Paper 012-009 – R & D Tax Incentive.

37. Property Owner Deductions

Property owners can claim a number of expenses against rental income including:

- rates
- insurance
- land tax
- interest on loans obtained to purchase the property
- repairs and maintenance
- real estate agents' fees for collection of rent
- accountant's fees for preparation of income tax information relating to the rented property
- excess water rates
- electricity in common area
- depreciation on plant and equipment utilised within the rented property that is owned by the taxpayer
- building allowance, if eligible (refer to Item 14)

38. Gifts

Gifts made to a designated gift recipient within a financial year are a tax deduction to the payer. Gifts can be any of the following:

- $2 or more in money
- property valued by the Tax Office at more than $5,000
- property purchased during the twelve months before the gift was made
- listed shares valued at $5,000 or less and acquired at least twelve months before the gift is made
- trading stock
- cultural gifts
- cultural bequests
- heritage gifts

39. Minor Benefits

Deductions may be available for payments paid to a charity for fund raising charity dinners.

The minor benefits measure allows a tax deduction for certain payments to a charity where a benefit (such as a dinner) is received by the taxpayer, as long as the value of the benefit received does not exceed the relevant percentage of the total payment.

Under the rules to be tax deductible:
- the contribution must cost at least $150; and
- the benefit received must be no more than 20% of the value of the contribution or $150 whichever is less.

40. Audit Fees

Audit fees are deductible to the taxpayer who lodges their income tax return on an accruals basis if there is a contract that creates a presently existing liability before 30th June.

41. Salary Packages

Salary packages for executives and employees should be finalised at the beginning of a financial year. Salary packages should be documented and filed appropriately. Salary packaging can also assist in the minimisation of income tax particularly in the areas of voluntary superannuation contributions, acquisition of assets that are not subject to Fringe Benefit Tax. The employer is required to report the value of fringe benefits and reportable superannuation contributions on the employees PAYG Tax Summary and that could have some effect on payment of other government benefits to the employee. Many of these rules have changed, e.g. allowable superannuation contributions, and we recommend you contact your adviser in regards to these changes.

42. Fringe Benefits Tax Payment (Accruals Basis)

Fringe benefits tax payments are deductible when paid. If you are lodging your income tax return on an accruals basis, then you can claim the Fringe Benefit Tax Instalment, which is due for payment on 21st July, as a tax deduction in the year ended 30th June.

43. Commissions Owing (Accruals Basis)

Where employees or any other business is owed commission by your business that was due for services rendered up to 30th June and you are lodging your income tax return on an accruals basis, the accrued amount of commissions owing can be claimed as a tax deduction for the year ended 30th June.

44. Interest Owing (Accruals Basis)

Any interest that is outstanding on a business loan that has not been paid as at 30th June and you are lodging your income tax return on an accruals basis, can be claimed as a tax deduction at 30th June.

45. Salaries And Wages (Accruals Basis)

The accrued expense for the days that employees of an enterprise have worked but have not been paid at 30th June can be claimed as a tax deduction at 30th June if the business is lodging its income tax return on an accruals basis.

46. Commercial Bills (Accruals Basis)

Where the term of the commercial bill expires beyond 30th June; the discount applicable to the period up to 30th June can be claimed as a tax deduction if the business is lodging its income tax return on an accruals basis.

47. Rent (Accruals Basis)

If the business is lodging its tax return on an accruals basis and rent is in arrears, rental arrears can be claimed as a tax deduction for the year ended 30th June.

48. Shareholding Investment Expenses

Expenses incurred in gaining income from shares are a tax deduction. Expenses could include:

- interest on loans borrowed to purchase shares
- fees paid to financial advisers
- travel expenses in attending meetings
- accountancy fees for preparation of income tax returns

49. Taxation Advice

Fees payable to an accountant or registered tax agent for taxation advice are legitimate expenses that can be claimed in the income tax return.

50. Motor Vehicle Expenses

There are two methods available to calculate tax deductions for work-related motor vehicle expenses:

- Cents Per Kilometre Method
- Logbook Method

Appropriate records need to be maintained to substantiate the claim for motor vehicle expenses. For further information on the treatment of motor vehicle expenses, refer to Paper 004-011 - Systems Required To Obtain A Taxation Deduction For Motor Vehicle Expenses.

51. Bad Debts Recovered

If a debtor, who has been written-off as a bad debt and claimed as a tax deduction for the amount of the bad debt, subsequently pays the amount owing (or part thereof), the amount paid has to be brought to account as assessable income in the year of recovery.

52. Personal Service Income

The taxation laws include measures that are designed to limit the deduction available to certain contractors whether operating as a sole trader or through a company, trust or partnership. These are known as the Personal Services Income (PSI) Measures. The taxpayer who meets certain specified tests will be treated as carrying on a personal services business and will be able to claim a wider range of deductions. For further information refer to Paper 012-067 - Personal Services Income.

53. Goods And Services Tax

The Goods and Services Tax will affect all business people. A review should be made of the particular GST Rules that relate to your business. It is recommended that you review:
Paper 020-002 - GST As It Affects SMEs (Summary)
Paper 020-085 - Introduction To Business Activity Statement
Paper 020-086 - Completing The Business Activity Statement Quarterly On A "Cash" Basis
Paper 020-087 - Completing The Business Activity Statement Quarterly On An "Accruals" Basis
Paper 020-088 - Completing The Business Activity Statement Monthly On A "Cash" Basis
Paper 020-089 - Completing The Business Activity Statement Monthly On An "Accruals" Basis
Paper 020-095 - GST Control Accounts/Reconciliation With Business Activity Statement

The Specific Industry Papers prepared on GST, are namely:
Paper 151-003 - Retail (Non Food) Industries Specific GST Issues
Paper 152-003 - Food Retail Industries Specific GST Issues
Paper 153-003 - Building Industries Specific GST Issues
Paper 154-003 - Construction And Development Industries Specific GST Issues
Paper 155-003 - Farming Industries Specific GST Issues
Paper 156-003 - Hotel & Motel Industries Specific GST Issues
Paper 157-003 - Tourism Industries Specific GST Issues
Paper 158-003 - Motor Vehicle Industries Specific GST Issues
Paper 160-003 - Specific Issues Post 1st July 2000 - Service Industries
Paper 165-003 - Specific Issues Post 1st July 2000 - Trades Industries (Carpenters, Electricians, Plumbers, Roof Fixers, Drainers, Painters, Panel Beaters, Spray Painters, Auto Electricians, Equipment Repairers, Computer Repairs & Maintenance) - Specific GST Issues
Paper 210-003 - Specific Issues Post 1st July 2000 - Professions *(Accountants, Solicitors, Barristers, Real Estate Agents, Valuers, Engineers, Town Planners, Architects, Quantity Surveyors, Surveyors, Management Consultants, Dentists, Medical Practitioners)* - Specific GST Issues
Paper 251-003 - Specific Issues Post 1st July 2000 - Not For Profit Organisations

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54. Creditable Purpose Calculation

Under the GST rules, if an entity makes an acquisition only partly for a creditable purpose i.e. business purposes, it will only be entitled to a pro-rata input tax credit based on the percentage of creditable purpose. This means that if the creditable purpose was 60%, then only 60% of the input tax credit can be claimed in the Business Activity Statement.

It is necessary to implement monitoring procedures to ensure that for every acquisition made by an enterprise, the actual creditable purpose is the same as what was estimated in the Business Activity Statement when the expenditure was made.

As part of tax planning for a business, appropriate procedures should be implemented to monitor the actual creditable purpose of any item acquired. The law requires monitoring on an ongoing basis, as follows:

GST Exclusive Value Of Acquisition Or Importation	Number Of Adjustment Periods For Monitoring The Acquisition
$1,000 and less	Nil
More than $1,000 to $5,000 or less	Two
More than $5,000 less than $500,000	Five
$500,000 or more	Ten

If the acquisition is disposed of before the adjustment period finishes, then the last adjustment period will be the next tax period ending or closest to 30th June.

The main items to cause concern for businesses are likely to be:

- Motor Vehicle - wherein an estimate would have been made as to the creditable purpose percentage
- Motor Vehicle Running Expenses
- Travelling Expenses - especially if an expense has been prepaid
- Computers
- Printers
- Scanners
- Software
- Home Office Expenses

55. Pay As You Go Tax (PAYG)

The "Pay As You Go Tax (PAYG)" system applies to all businesses. For further information, refer to Paper 012-018 - PAYG Voluntary Agreements.

56. Small Business Entities

Various changes have been introduced to the taxation laws, which offer benefits to small business entities. The definition of "small business entity" can vary under different circumstances. The most common cut off is turnover of under $2M - but in some instances the turnover can be as high as $20M for small businesses to receive specific benefits. For further information, refer to:
Paper 012-030 - Turnover Under $75,000 - Specific Taxation Issues
Paper 012-031 - Turnover $75,000 To $2m - Specific Taxation Issues
Paper 012-035 - Turnover $2m To $20m - Specific Taxation Issues

57. Superannuation Funds – Taxation Treatment

Contributions to superannuation funds are taxed at 15% of the contribution. This relates to superannuation minimum contribution required to be paid by employers (refer to Item 16) and to maximum age based contributions (refer to Item 17).

Contributions for taxpayers with pre-tax income of $300,000 and over will be taxed at 30% of the contribution.

Members of superannuation funds can make voluntary contributions from after tax funds of $180,000 per annum with a maximum of $540,000 over a three year period per member.

If voluntary contributions exceed $540,000 over a three year period, the excess will be taxed at 47%.

Earnings made by a superannuation fund on the fund's investments are taxed at 15%, however, in determining tax payable by a superannuation fund, the benefit of franking credits (imputation credits) are brought to account which can have the effect of substantially reducing the amount of income tax payable by a superannuation fund.

58. Valuation Of Natural Increase

The Australian Taxation Office has issued prescribed cost rates for the valuation of life-stock natural increase as follows:

Description	Rate Per Head
Cattle	$20
Deer	$20
Emus	$ 8
Goats	$ 4
Horses *	$20
Pigs	$12
Poultry	.35c
Sheep	$ 4

** Where a service fee is incurred for insemination and a horse is acquired as a result by natural increase, its cost is the greater of the cost (i.e. actual or as prescribed by the regulations) and the amount of the service fee attributable to the acquisition.*

59. Investments In Management Investment Schemes

Investors in Management Investment Schemes (MIS) might be entitled to immediate upfront deductibility for all expenditure as long as:

- at least 70% of the expenditure is directly related to (direct agricultural expenditure);
- arm's length prices are used to determine the value of the direct agricultural expenditure; and
- it is recommended that you only invest in Management Investment Schemes which have a class ruling from the Australian Taxation Office.

60. Student Loan Repayments

Higher education loan programme (HELP) and HECS repayment thresholds and rates for the 2015/16 financial year are:

HELP Repayment Income (HRI) $	Rate %
Below $54,126	NIL
$54,126 - $60,293	4% of HRI
$60,294 - $66,457	4.5% of HRI
$66,458 – $69,950	5% of HRI
$69,951 – $75,191	5.5% of HRI
$75,192 – $81,433	6% of HRI
$81,434 – $85,719	6.5% of HRI
$85,720 – $94,332	7% of HRI
$94,333 - $100,520	7.5% of HRI
$100,521 and above	8% of HRI

*HRI= Taxable income plus any total net rental losses, total reportable fringe benefits amounts, reportable superannuation contributions and exempt foreign employment income.

61. Fuel Tax Credits Expansion

Fuel Tax Credits are available for the majority of fuel used in business, whether it is in blower-vacuums; backhoes; chainsaws; concrete mixers etc. The only fuels that are not eligible are fuels used in cars or other lightweight vehicles travelling on public roads, alternative fuels and aviation fuels.

To be eligible to claim the Fuel Tax Credits, businesses have to register by telephoning the Australian Taxation Office on 137226 (24/7). To register for Fuel Tax Credits you will need to supply your Australian Business Number and the business' Tax File Number. You also have to be registered for GST to claim Fuel Tax Credits. Once you are registered an additional label will be added to your BAS. The Taxation Office will send you information on how to claim the Fuel Tax Credits. You need to keep records that prove you bought fuel and how it was used for your business.

62. Private Use Of Assets

Legislation has been passed to ensure that shareholders in private companies and their associates are taxed when they use company assets for private purposes, which includes free use of assets such as cars, boats, holiday apartments, etc., by shareholders rather than employees. The benefits provided are by private companies to shareholders and their associates taxed in the same way that the use of the asset by an employee is taxed. This would be as a fringe benefit tax item.

63. Professional Advice

Tax planning for businesses is a complicated area and this paper presents some of the matters that could arise relative to tax planning for an SME. However, before embarking on any detailed planning relative to your business' taxation affairs, it is recommended that you seek professional advice from your professional accountant and solicitor.

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Addendum 012-015a

012-015a Travel Diary

Name: ____________________

Period Covered:
From ____________________

To ____________________

Date	Location	Start Time	Finish Time	Time Duration	Person Seen or Activity	Title	Enterprise	Matters Discussed

Signed as a true and correct record:

Name: ______

Date: ______

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Addendum 012-015b

012-015b Reasonable Travel & Meal Allowance Expenses

Reasonable amount for 2015/16
The reasonable amounts for daily travel allowance expenses, according to salary levels and destinations, for the 2015/16 income year are shown in Tables 1-6 as follows:

Table 1: Employee's Annual Salary - $ 115,450 or below

Place	Accomm $	Food and drink $	Incidentals $	Total $
		B'fast 25.90 Lunch 29.15 Dinner 49.65		
Adelaide	157	104.70	18.75	280.45
Brisbane	205	104.70	18.75	328.45
Canberra	168	104.70	18.75	291.45
Darwin	216	104.70	18.75	339.45
Hobart	132	104.70	18.75	255.45
Melbourne	173	104.70	18.75	296.45
Perth	233	104.70	18.75	356.45
Sydney	185	104.70	18.75	308.45
High cost country centres	See Table 4	104.70	18.75	Variable - see Table 4
Tier 2 country centres (see Table 5)	132	B'fast 23.20 Lunch 26.50 Dinner 45.70	18.75	246.15
Other country centres	110	B'fast 23.20 Lunch 26.50 Dinner 45.70	18.70	224.15

Table 2: Employee's Annual Salary - $ 115,451 - $ 205,300

Place	Accomm $	Food and drink $	Incidentals $	Total $
		B'fast 28.20 Lunch 39.90 Dinner 55.90		
Adelaide	208	124.00	26.80	358.80
Brisbane	257	124.00	26.80	407.80
Canberra	223	124.00	26.80	373.80
Darwin	287	124.00	26.80	437.80
Hobart	176	124.00	26.80	326.80
Melbourne	228	124.00	26.80	378.80
Perth	260	124.00	26.80	410.80
Sydney	246	124.00	26.80	396.80
High cost country centres	See Table 4	124.00	26.80	Variable - see Table 4
Tier 2 country centres (see Table 5)	152	B'fast 25.90 Lunch 26.80 Dinner 51.60	26.80	282.80

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Other country centres	127	B'fast 25.90 Lunch 26.50 Dinner 51.60	26.80	257.80

Table 3: Employee's Annual Salary - $ 203,301 and above

Place	Accomm $	Food and drink $ B'fast 33.25 Lunch 47.00 Dinner 65.95	Incidentals $	Total $
Adelaide	209	146.20	26.80	382
Brisbane	257	146.20	26.80	430
Canberra	246	146.20	26.80	419
Darwin	287	146.20	26.80	460
Hobart	195	146.20	26.80	368
Melbourne	265	146.20	26.80	438
Perth	299	146.20	26.80	472
Sydney	265	146.20	26.80	438
Country centres	$195, or the relevant amount in Table 4 if higher	146.20	26.80	Variable - see Table 4 if applicable

Table 4: High Cost Country Centres - Accommodation Expenses

Country Centre	$	Country Centre	$
Albany (WA)	179.00	Jabiru (NT)	192.00
Alice Springs (NT)	150.00	Kalgoorlie (WA)	159.00
Bordertown (SA)	135.00	Karratha (WA)	347.00
Bourke (NSW)	165.00	Katherine (NT)	134.00
Bright (VIC)	152.00	Kingaroy (QLD)	134.00
Broome (WA)	260.00	Kununurra (WA)	202.00
Bunbury (WA)	155.00	Mackay (QLD)	161.00
Burnie (TAS)	160.00	Maitland (NSW)	152.00
Cairns (QLD)	140.00	Mount Isa (QLD)	160.00
Carnarvon (WA)	151.00	Mudgee (NSW)	135.00
Castlemaine (VIC)	140.00	Newcastle (NSW)	155.00
Chinchilla (QLD)	143.00	Newman (WA)	195.00
Christmas Island (WA)	185.00	Norfolk Island (NSW)	329.00
Cocos (Keeling) Islands (WA)	285.00	Northam (WA)	163.00
Colac (VIC)	138.00	Orange (NSW)	155.00
Dalby (QLD)	144.00	Port Hedland (WA)	295.00
Dampier (WA)	175.00	Port Pirie (SA)	140.00
Derby (WA)	190.00	Queanbeyan (NSW)	133.00
Devonport (TAS)	140.00	Roma (QLD)	139.00
Emerald (QLD)	156.00	Thursday Island (QLD)	200.00
Exmouth (WA)	255.00	Wagga Wagga (NSW)	141.00
Geraldton (WA)	175.00	Weipa (QLD)	138.00
Gladstone (QLD)	187.00	Whyalla (SA)	156.00
Gold Coast (QLD)	149.00	Wilpena Pound (SA)	167.00
Gosford (NSW)	140.00	Wollongong (NSW)	136.00

Halls Creek (WA)	199.00	Wonthaggi (VIC)	138.00
Hervey Bay (QLD)	157.00	Yulara (NT)	280.00
Horn Island (QLD)	180.00		

Table 5: Tier 2 Country Centres

Country Centre	Country Centre	Country Centre
Albury (NSW)	Echuca (VIC)	Portland (VIC)
Ararat (VIC)	Esperance (WA)	Port Lincoln (SA)
Armidale (NSW)	Geelong (VIC)	Port Macquarie (NSW)
Ayr (QLD)	Goulburn (NSW)	Queenstown (TAS)
Bairnsdale (VIC)	Gunnedah (NSW)	Renmark (SA)
Ballarat (VIC)	Hamilton (VIC)	Rockhampton (QLD)
Bathurst (NSW)	Horsham (VIC)	Sale (VIC)
Benalla (VIC)	Innisfail (QLD)	Seymour (VIC)
Bendigo (VIC)	Kadina (SA)	Shepparton (VIC)
Broken Hill (NSW)	Launceston (TAS)	Swan Hill (VIC)
Bundaberg (QLD)	Mildura (VIC)	Tamworth (NSW)
Ceduna (SA)	Mount Gambier (SA)	Tennant Creek (NT)
Charters Towers (QLD)	Muswellbrook (NSW)	Toowoomba (QLD)
Coffs Harbour (NSW)	Naracoorte (SA)	Townsville (QLD)
Cooma (NSW)	Nowra (NSW)	Tumut (NSW)
Dubbo (NSW)	Port Augusta (SA)	Warrnambool (VIC)

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Addendum 012-015c

012-015c Income-Producing Building Write-Off Rates

Use of Building	Capital Works Commenced Between	Write-Off	
		Rate %	Years
Non-residential income-producing buildings	20.7.82 - 21.8.84 22.8.84 - 15.9.87 16.9.87 - 26.2.92 27.2.92 +	2.5 4.0 2.5 2.5[2]	40 25 40 N/A[3]
Short-term traveller accommodation	22.8.79 - 21.8.84 22.8.84 - 15.9.87 16.9.87 - 26.2.92 27.2.92 +	2.5 4.0 2.5 4.0	40 25 40 N/A[3]
Residential income-producing buildings	18.7.85 - 15.9.87 16.9.87 - 26.2.92 27.2.92 +	4.0 2.5 2.5[2]	25 40 N/A[3]
Research & Development buildings	21.11.87 - 26.2.92 27.2.92 +	2.5 2.5[2]	40 N/A[3]
Structural improvements	27.2.92 +	2.5[2]	N/A[3]
Buildings used for eligible industrial activities	27.2.92 +	4.0	N/A[3]
Environment protection earthworks	19.8.92 +	2.5	N/A[3]

1 Rates are those, which apply under the prime cost method.

2 A deduction of 4% may be available if the improvements are part of an industrial building, the construction of which commenced after 26th February 1992 or it is a building with at least 10 bedrooms, which provides short-term traveller accommodation.

3 If construction commenced after 26th February 1992, the limit is no longer expressed as a number of years as the rate of deduction may change if the use of the building changes.

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