Changes coming this new financial year

We're counting down the days now to the end of another financial year, and as always, that means changes are just around the corner...from a tax point of view at least. There are few more significant ones this year for those in business, which we thought were worth highlighting.

Company tax rate cut to 25%
From 1st July 2021 the company tax for 'Base Rate Entities' will fall once again from 26% to 25%, where it will stay for the foreseeable future. This will complete the Federal Government's schedule, commenced a number of years ago, to bring down the rate of tax paid by businesses that operate through a corporate structure.

A 'Base Rate Entity' (BRE) is essentially a company with an annual turnover of less than $50 million where 80% or less of its assessable income is 'passive', i.e. interest, dividends, etc. In simple (and imperfect) terms think of a BRE as a company that operates a business rather than deriving most of its income from investment type income. As is the way with all things tax, it's more complicated than that, but this distinction covers the majority of cases. In effect, most small-medium businesses that operate within a company are BREs.

Company tax rate cuts for small-medium business owners are mostly a bit of smoke and mirrors, as we've highlighted in previous issues. There's not a huge long term tax saving, and in fact it can end up costing more in lost franking credits. But there are some things you may want to think about before the end of financial year.

Bringing forward deductible expenses to this financial year, where possible, will ensure that the tax benefit comes at a rate of 26% rather than 25%. Likewise, if it's logistically and legally possible, deferring any income until after the end of financial year will see it assessed at the lower rate of 25%. On significant amounts of income and expenditure, that 1% difference starts to add up.

In addition, it's important to note that from the very beginning, this plan to incrementally reduce the rate of company tax included a stipulation that imputation credits for tax paid in the company can only be paid out at the current rate of company tax applicable. This means that even though you may have paid tax at a higher rate in the company in previous years, when you pay a dividend, you can only attach imputation (or franking) credits at 26% for 2020-21, and 25% for 2021-22. The difference between the rate of tax paid and the franking rate is effectively lost.

If you intend to pay dividends in the near future you may want to think about getting that done before 30th June so that a 26% credit flows through to the shareholder(s), rather than a 25% one. Once the new year ticks over, as the law currently stands, that extra 1% can never be paid out again.

Super Guarantee rate increasing to 10%
Employers should take note that the Superannuation Guarantee (SG) rate will be increasing from 9.5% to 10% on 1st July.

SG contributions are compulsory amounts that employers are required to put away for their employees. They're not technically 'deductions' from employee earnings, though in many case they may form part of a package of remuneration and benefits.

This rate of 9.5% has, at various times, been slated to steadily increase, but for a number of reasons, has actually been fixed since the 2014-15 financial year. That makes this the first increase in over half a decade.

Businesses that employ people will need to make sure their payroll systems are ready to reflect the increase, in time for the first pay run after 30th June. If you use software to process your payroll, please contact your software vendor, and of course speak to us if you have any questions or need help.

Concessional contribution super cap increasing
For those who like to put away the maximum amounts possible into superannuation, you'll be pleased to hear that as previously advised, the concessional contributions limit will increase from 1st July 2021. 'Concessional' contributions are amounts put into super before tax (such as employer SG contributions, salary sacrifice contributions and/or voluntary amounts) for which a tax deduction is being claimed, that are then taxed at the 'concessional' rate of 15% in the fund.

We detailed this increase in a previous issue, along with news about other increases like those to the non-concessional limits. In short, from 1st July most people will be able to put away up to $27,500 in concessional super per year, up from $25,000. Couple this with the opportunity to catch-up unused concessional contributions caps from prior years (for those with balances under $500,000), and there is a great opportunity for many people to further increase the amount they're putting away for retirement. If you're unsure about what to do for your unique circumstances, you should of course seek advice from a licensed financial adviser.

Land Tax nominations for trusts
The deadline for trusts to nominate a single beneficiary as the beneficial owner of property held in a trust for South Australian Land Tax purposes is 30th June. If the nomination is not made, the opportunity is lost forever and the property of the trust will be subject to higher rates of Land Tax.

This is a rather complicated change that we covered in more detail in a previous issue. Ironically, paying the higher rate of Land Tax in your trust may not necessarily be the worst outcome, depending on your circumstances. Every situation is different and in some cases it may be better not to make the nomination.

The important thing to note though is that if you own property in a trust and haven't considered this issue yet, it's imperative that you do so before 30th June.

Like a calendar new year, a new financial year is an opportunity for decision making. In this case, making the right decisions can potentially save you some money. If you need more information or assistance with any of these matters, or anything else, please contact us.

Our mailing address is:
Dewings
PO Box 170
Fullarton, South Australia 5063
Australia