

Year-end tax planning toolkit

For the year ending 30 June 2023



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Glossary

ABN	Australian Business Number
AMIT	Attribution managed investment trust
ATO	Australian Taxation Office
CbC	Country-by-country
CbCRE	Country-by-country reporting entity
CFC	Controlled foreign company
CFI	Conduit foreign income
CGT	Capital gains tax
CRS	Common Reporting Standard
DTA	Double tax agreement
ESIC	Early stage investment company
ESS	Employee share scheme
ESVCLP	Early stage venture capital limited partnership
FATCA	Foreign Account Compliance Act
FBT	Fringe benefits tax
FHSS	First home super saver scheme
FITO	Foreign income tax offset
FTE	Family Trust Election
IDS	International Dealings Schedule
LAFH	Living away from home
MAAL	Multinational anti-avoidance law
MIT	Managed investment trust
MYR	Minimum loan repayments
NALI	Non-arm's length income
NANE	Non-assessable non-exempt
OTE	Ordinary time earnings
PAYG	Pay-as-you-go
Pitcher Partners	Pitcher Partners Advisors Proprietary Limited
PSB	Personal services business
PSI	Personal services income
R&D	Research and development
SG	Superannuation guarantee
SGE	Significant global entity
TFN	Tax file number
TOFA	Taxation of Financial Arrangements
UPE	Unpaid present entitlement

Section 1 – Introduction

Welcome to the Pitcher Partners
30 June 2023 year-end tax planning toolkit.

[1A] Year-end tax planning

As the financial year draws to a close, it is time to start thinking about whether your year-end tax planning is in order. Tax planning not only requires consideration of income and deductions for the year, but also requires you to consider whether your compliance requirements have been met. This includes whether appropriate elections have been made on a timely basis, the preparation and maintenance of appropriate documentation (such as trust minutes) and forward planning of your tax affairs. Our tax toolkit is here to assist you in this process.

[1B] Interactive PDF

This document has been created as an interactive PDF. This means you can check boxes, record notes and submit this back to Pitcher Partners for discussion.

[1C] What this document does

This document provides an outline of tax issues that can be considered before year-end. This document has been updated for new developments and, where relevant, the 2023–24 Budget announcements. This toolkit is specifically tailored for taxpayers in the middle market and covers both corporate taxpayers and private groups.

[1D] What this document doesn't do

This toolkit is not intended to be a comprehensive and complete document covering all taxation issues that require consideration. Each taxpayer's circumstances are unique. This document is only intended to provide you with a broad overview of a range of issues for consideration before the end of the financial year.

[1E] Take care about tax planning

Tax planning may often result in a taxpayer paying less income tax in a given income year. It is noted that the definition of a tax benefit under the tax anti-avoidance provisions is broad enough to cover a reduction in assessable income, a deferral of income tax, or the creation of a deduction. Therefore, the tax anti-avoidance provisions must always be considered as part of your year-end tax planning. We have highlighted several anti-avoidance or integrity provisions for your consideration in Section 15 – Tax administration and integrity of this toolkit.

[1F] How will you find what you are looking for?

To assist you in quickly locating the area of tax that is relevant to you, this document has been divided into sections. Section 1 to Section 4 cover general tax planning considerations for all taxpayers. Section 5 to Section 8 cover tax planning considerations for specific entity types (e.g. companies or trusts). Section 10 to Section 14 provide additional tax planning considerations for specific tax specialisation areas (e.g. capital gains tax and international tax). Finally, Section 15 outlines tax integrity measures that are looked at by the ATO.

[1G] Disclaimer

The contents of this document are for general information only and do not consider your personal circumstances or situation. Furthermore, this document does not contain a detailed or complete explanation of the law, as explanations have been summarised and simplified. This document is not intended to be used, and should not be used, as professional advice.

We trust you will find this document useful when considering your 30 June 2023 tax planning. Please contact your Pitcher Partners representative for more information or to clarify any of the issues raised in this document.

The contents of this document do not constitute financial product advice and should not be used in making decisions with respect to a financial product. Taxation is only one of the matters that must be considered when deciding on a financial product. You should consider seeking financial advice from the holder of an Australian Financial Services License before deciding on a financial product.

If you have any questions or are interested in considering any item in this document further, please consult with your Pitcher Partners representative to obtain advice in relation to your circumstances. Pitcher Partners disclaims all liability for any loss or damage arising from reliance upon any information in this document.

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Section 2 – Client details

[2A] Tax planning toolkit

Enter your details

If you are completing this document and wish to submit this to your Pitcher Partners representative, please complete your details in the following boxes.

Enter name

Enter contact details

Phone

Email

Section 3 – Income

This section deals specifically with the treatment of income that you may have received or derived during the income year and whether such income should be recognised in the current income year or subsequent years.

[3A] Accounting for your business income

If you carry on a business, you may be able to legitimately bring forward or defer invoicing (in appropriate circumstances). Whether business income has been derived for tax purposes depends on the underlying legal arrangements. Typically, business income would be recognised for taxation purposes at the time when everything has been done that is required to be done to earn the amount and create a recoverable debt. This may be different to the time at which an invoice is raised, or cash is received. Amounts recorded as accrued or unearned income should be reviewed to determine when the amount should be recognised for tax purposes.

[3B] Construction contracts and different methods of accounting

The ATO accepts different methods of recognising income and deductions (e.g. the basic approach or the estimated profits approach) for businesses that involve constructing a building or other asset for clients (and the activities do not constitute the sale and supply of trading stock). The method chosen can have a significant impact on your taxable income in different circumstances. Whichever method is chosen should be applied on a consistent basis.

[3C] Rental or leasing income timing

You should consider whether rental income received is passive in nature (and therefore assessable on a cash basis) or is derived in carrying on a business (and therefore possibly assessable on an accruals basis). It will generally be more difficult for the entity (including an individual) that is not a company to establish that it carries on a rental business. For example, the holding of one or two residential properties is unlikely to constitute a business, while the management of a significant commercial building or shopping centre and its tenants could potentially be more indicative of a business.

[3D] Interest income and timing

Typically, interest is recognised as income for tax purposes on a receipts basis. However, interest arising in the ordinary course of carrying on a moneylending business or from certain financial arrangements (e.g. under TOFA or in respect of debt like arrangements that allow interest to be deferred by more than 12 months) may need to be recognised on an accruals basis for income tax purposes.

[3E] Dividend income and timing

Dividends (together with any attached franking credits) are included in assessable income when paid. For this purpose, a dividend is taken to be paid when it is credited to the shareholder in the company's records.

[3F] Determine if amounts are capital or revenue

Where you have received material amounts that you are treating on capital account, you should properly consider whether your position on characterisation is correct and defensible. Many receipts (even where derived outside the ordinary course of business) may be on revenue account and assessable under ordinary concepts.

[3G] Treatment of grants, bounties and subsidies

Certain government grants are considered ordinary income or assessable bounties or subsidies while other payments may be non-assessable including some State and Territory government grants. You should consider whether the amounts are assessable and (if so) when the assessable amounts should be recognised for tax purposes. It will be important to retain evidence of the program under which payments were made to substantiate their treatment as NANE income.

[3H] Disaster relief amounts and potential concessions

Concessional tax treatment may apply to money received in connection with a natural disaster.

[3I] Calculate trust amounts for the year

A beneficiary of a trust (whether an AMIT or not) should consider their expected share of the trust's income for tax purposes rather than the expected amount of the accounting or cash distribution. Make sure you have appropriately adjusted the amount of the accounting distribution.

[3J] Check your treatment of foreign denominated income

Generally, income denominated in a foreign currency must be translated into Australian dollars using the exchange rate allowable for tax purposes.

[3K] Calculate foreign exchange gains on foreign currency amounts

If you held a foreign currency denominated bank account or entered into transactions denominated in a foreign currency, you may be required to include foreign exchange gains in calculating your taxable income. Foreign exchange gains can arise even where the relevant transaction occurs wholly in a foreign currency.

[3L] Claim tax offsets for foreign taxes (paid on your behalf or on foreign income)

If you received income that has been subject to foreign tax (regardless of when the tax is paid), you should determine whether you need to gross-up the income for the foreign tax and whether a FITO can be claimed to reduce the Australian tax on such income.

[3M] Review income that may not otherwise be assessable

Several provisions of the tax law treat receipts as not being assessable income. Examples include, non-portfolio foreign dividends received by companies, foreign income (other than employment income) earned by temporary residents and mutual receipts of certain member-based organisations.

[3N] Consider whether you derived personal services income

If you provide your services through a trust, company or partnership, the PSI rules may apply to require you to include the amount received by the entity in your assessable income and limit the deductions that you may claim (unless the personal services entity is conducting a PSB).

[3O] Review extraordinary items

If you have received extraordinary (or significant) amounts during the year, these should be examined closely to determine the proper tax treatment.

Additional notes

Section 4 – Deductions

This section deals specifically with the expenses that you may have incurred and whether such expenses can give rise to a deduction for the current income year or should be deferred to subsequent years.

[4A] Review major expenditure for deductibility

Consider all material expense items to determine whether there is any risk that certain amounts may not be deductible or whether a specific deduction provision can be applied.

[4B] Check the timing of deductions

Generally, a loss or outgoing will be deductible when the amount is incurred. However, in certain circumstances, deductions may be denied (e.g. fines or penalties) or deferred (e.g. prepayments, accrued expenses, leave entitlements or bonus payments).

[4C] No deductions for payments that do not comply with the PAYG rules

Taxpayers may be unable to claim tax deductions for payments to employees where they have not withheld under the PAYG regime or payments to contractors where no valid ABN has been provided.

[4D] Review whether items involve capital expenditure

Where an amount is regarded as capital expenditure (other than expenditure on a depreciating asset – refer [4G]), you should consider whether a deduction is available under the blackhole provisions or the amount should be included in the cost base of an asset.

[4E] Claiming deductions for bad debts

If you have genuine doubtful debts, you may be able to bring forward a deduction if they are written off as bad debts for tax purposes before the end of the income year. Evidence that a decision to write off the debt was made before year-end should be created and retained to substantiate the deduction.

[4F] Using trading stock valuations to change taxable income

For taxation purposes, trading stock on hand at year-end can be valued at cost, market selling value or replacement value on an item-by-item basis. The value chosen can have the effect of bringing forward deductions or shifting amounts to the following year.

[4G] Review capital allowance deductions

A deduction for the cost of eligible depreciating assets may be available over time or accelerated under the temporary full expensing incentive. Note that the asset must be used or installed ready for use by 30 June 2023 to qualify for the temporary full expensing incentive. Taxpayers may choose, on an asset-by-asset basis, not to utilise the temporary full expensing incentive. Ensure appropriate adjustments are made for amounts claimed under the accelerated deduction incentives in prior years. If you have identified capital expenditure that is not included in the cost of a depreciating asset or otherwise deductible, you should consider whether a deduction is available as a project pool cost.

[4H] Ensure you do not overclaim deductions for rental properties

Deductions in respect of depreciating assets in rental properties (that are not new residential properties) may no longer be available. Further, travel expenses that relate to rental property may also no longer be claimed. There are exceptions where the taxpayer's rental activities amount to the carrying on of a business, or the taxpayer is a company, superannuation entity (other than self-managed superannuation funds) or managed investment trust. More generally, all deductions may need to be reduced if the property is not genuinely available for rent, is used for private purposes for part of the year or family or friends are charged a below market rent for use the property. This is an area of increased ATO focus.

[4I] Consider whether costs relating to vacant land are deductible

A deduction may be denied for costs of holding vacant land unless, at the time the cost was incurred, the land was used or available for use in a business carried on by the landowner or certain related entities. For these purposes, land is deemed to be vacant while residential premises are being constructed or substantially renovated. These rules do not apply to companies, superannuation entities (other than self-managed superannuation funds) and managed investment trusts. This can impact taxpayers that land-bank in certain entities and deny substantial deductions.

[4J] Consider whether you need to capitalise internal labour costs

Where you use employees to construct assets, you may be required to capitalise labour costs for tax purposes. If you capitalise labour costs for accounting purposes (or would otherwise be required to do so) you should carefully consider the basis of any different tax treatment. This issue should be particularly considered for large projects involving IT and software implementation, as well as the construction or development of depreciating assets (both tangible and intangible). Consideration may then need to be given to whether a deduction is available under temporary full expensing.

[4K] Review employee bonuses provisions

An employee bonus will be deductible only if, on or before 30 June, the employer becomes definitively committed to paying the bonus (e.g. by passing a properly authorised resolution) or by incurring a quantifiable legal liability to pay the bonus.

[4L] Review expenses and whether they relate to earning exempt-type income

Expenses that relate to exempt-type income may be non-deductible.

[4M] Check your treatment of foreign denominated expenses

Generally, deductions denominated in a foreign currency must be translated into Australian dollars using exchange rates allowable for tax purposes.

[4N] Review deductions claimed for foreign exchange losses

If you held a foreign currency denominated bank account or entered into transactions denominated in a foreign currency, you may be able to include foreign exchange losses in calculating your taxable income. Foreign exchange losses can arise even where the relevant transaction occurs wholly in a foreign currency.

[4O] Claiming deductions for gifts and donations

A tax deduction is available for a gift or donation of money or property (valued at \$2 or more) made to a deductible gift recipient provided appropriate documentary evidence has been retained. The deduction is reduced to the extent the amount thereof would result in, or increase, a tax loss for the income year. A taxpayer may be able to elect to amortise the amount over a period of up to five years.

[4P] Review interest deductions

If you have significant interest (or debt) costs during the year, you should consider whether you are precluded from deducting some or all of the costs. See Section 11 – Finance issues for further detail.

[4Q] Consider whether prepayments can be deducted upfront

Generally, prepaid expenditure is deductible over the shorter of 10 years or the period during which the services are to be provided rather than upfront. Special rules apply to individuals for expenditure not incurred in carrying on a business and taxpayers that carry on a business and have an aggregated turnover of less than \$50 million that may permit an upfront deduction where the eligible service period for the expenditure is 12 months or less. It may be possible to commit to audit fees prior to 30 June and incur a deduction for the total of the fees payable – such an arrangement should be documented¹.

[4R] Review service and management fees to associated entities

If fees are charged between your group entities, you should ensure agreements and other relevant paperwork to substantiate deductibility is in place before year-end, that the amounts are commercially justifiable and not paid because of losses of the recipient.

¹ See IT 2625, paragraph 8, dot points 5 and 6.

[4S] Check superannuation expenses to be paid before year end

You may be able to claim a deduction for superannuation contributions by ensuring the amounts are received by the superannuation fund before year-end.

[4T] Related party deductions can be denied

Where transactions involving related parties result in a mismatch between the year in which a deduction is claimed and when income is recognised, anti-avoidance provisions may defer the deduction.

Additional notes

Section 5 – Individuals

This section outlines a number of specific year-end taxation considerations that could apply for individual taxpayers.

[5A] Be aware of ATO compliance activity

The ATO is scrutinising claims made by individuals for work-related expenses, rental property expenses, expenses relating to “lifestyle” activities (aircraft, horse breeding and racing and high value motor vehicles and boats) and transactions involving cryptocurrencies, as well as ensuring that income is declared correctly. The ATO has developed an app (available for download [here](#)) that allows taxpayers to compare the level of proposed deductions against the ATO’s average claims.

[5B] Review income tax rates for the year ending 30 June 2023

For an individual resident taxpayer, the average tax rate (including Medicare levy and taking into account the low income tax offset and low and middle income tax offset) on a taxable income of \$165,922 for the year ending 30 June 2023 is 30%. A taxable income of that amount equates to a dividend of \$116,145 fully franked at 30%. A taxable income of \$109,864 (which equates to a dividend of \$82,398 fully franked at 25%) would result in an average rate for such an individual of 25%.

[5C] Claiming deductions for home office expenses

Home office expenses include running expenses (heating, cooling, and lighting); depreciation of computers, phones, and desks; costs of work-related phone calls and internet usage. The ATO allows you to claim actual amounts, an amount based on a rate of 67 cents per hour (plus the decline in value of depreciating assets other than furniture). This method can only be used where records of hours worked and invoices for depreciating assets acquired are maintained. Additional occupancy expenses (rent or mortgage interest, council rates and house insurance premiums) can only be claimed where your home office is a place of business.

[5D] Claiming work-related car expenses

The deduction available for work-related motor vehicle uses may be calculated using the “cents per km method” (at a rate of 78c per km for up to 5,000 km of such use) or the “logbook method”.

[5E] Other work-related deductions

Review the potential for other work-related deductions, including depreciation on tools of your trade, protective items, computers, software, reasonable overtime meal allowance amounts, substantiated work-related travel, and the cost of buying or cleaning specific occupational protective clothes and uniforms. The ATO has published information ([here](#)) on other types of work-related expenses that may be claimed as well as substantiation requirements.

[5F] Self-education deductions

Review whether education expenses are deductible. Legislation to remove the \$250 reduction for 2022–23 and later years was enacted in December 2022.

[5G] Work-related expenses you cannot claim

Expenses associated with your work that you cannot claim include: travel between your home and your primary workplace; expenses for a uniform consisting of conventional clothing; entertainment (e.g. buying a meal for a client or colleague); fines or penalties; childcare expenses; and fees paid to social clubs.

[5H] Claiming superannuation contributions

Individuals should consider whether making additional personal contributions is appropriate. If a contribution is made, a notice of intention to claim a deduction must be given to and acknowledged by the fund before the earlier of the day the individual’s tax return is lodged and 30 June of the next income tax year.

[5I] Claiming tax offsets for investments in ESICs and ESVCLPs

Investing in an ESIC or ESVCLP may provide a non-refundable carry-forward tax offset to reduce tax otherwise payable for the current income tax year.

[5J] Check the treatment of employee share schemes

The discount on shares, stapled securities and right/options acquired under an ESS is generally assessable to the individual. Review your ESS arrangements to determine if you can defer the discount or whether it will fall to be assessable in the current year.

[5K] Non-commercial losses may not be deductible

An individual may be unable to deduct a loss generated from a business activity (other than a primary production or professional arts business) where the individual earns \$250,000 or more unless one of several "exceptions" is satisfied or the Commissioner exercises his discretion.

[5L] Deductions may be denied if they relate to personal services income

Where you derive personal services income (see [\[3N\]](#)), you need to consider the possible application of the PSI rules and how they may affect your ability to claim deductions.

[5M] Reducing income through a living away from home allowance

Where an employee is required to live away from their usual home in Australia for the purposes of their employment, the taxable value for FBT purposes of any LAFH allowance may be reduced. The home must be available for the duration of their time away (i.e. it cannot be rented out). The ability to reduce the taxable value is limited to a maximum period of 12 months for an employee at any one work location.

Additional notes

Section 6 – Trusts

This section outlines a number of specific year-end taxation considerations that could apply to trusts.

[6A] ATO focus on tax effective trust distributions

The ATO has been active in identifying arrangements to which the trust stripping (reimbursement agreement) provision and general anti-avoidance rule (Part IVA) might apply. The trust stripping provision may apply where income is distributed to one beneficiary (that pays less tax) and the economic benefits of the distribution are provided to a different taxpayer and result in the trustee being liable to tax at 47%. Part IVA may apply where a distribution would otherwise give rise to a permanent tax benefit. You should carefully review distributions for 30 June 2023 and consider whether your trust distributions are likely to be scrutinised by the ATO. Pitcher Partners has prepared an internal checklist that considers trust issues including the ATO's risk categories set out in PCG 2022/2 that can be discussed at your year-end planning meeting.

[6B] Be aware of other ATO compliance activity

In addition to [6A], the main issues that the ATO are targeting include arrangements that exploit differences between trust and taxable income; revenue activities are mischaracterised to achieve concessional capital gains tax treatment; changes being made to trust deeds or other constituent documents to achieve a tax planning benefit; reporting of capital gains by non-resident beneficiaries².

[6C] Trustee can be taxed at 47%

To help reduce the risk of a trustee assessment at a rate of 47%, ensure that beneficiaries are made presently entitled to all income of the trust before 30 June (or earlier if required by the trust deed). You should consider using percentages or a "balance beneficiary". Using a company as a balance beneficiary may help to reduce the risk of top up marginal rate tax on the balance of taxable income derived by the trust subject to the matters referred to in [6A].

[6D] Review trust deeds before you make distributions

You should review your trust deed before year-end to ensure that: (a) the vesting date of the trust has not passed; (b) the proposed distributions are permitted by the deed (e.g. that the deed allows for distributions of capital gains); (c) proposed distributions are to eligible beneficiaries; (d) that you properly understand the definition of income; and (e) the requirements for valid distributions will be satisfied (e.g. approval by the appointor or the guardian or the relevant unit holders). Trustees have an overarching obligation to give "real and genuine" consideration to the needs of the beneficiaries to properly inform their distribution decision.

[6E] Ensure trustee resolutions are made before year end

Trustee resolutions may not need to be fully documented by 30 June unless specifically required by the trust deed. However, you should be able to evidence that decisions have been made by the trustee in a timely manner. Distributions should be finalised before year-end (or earlier if required by the trust deed).

[6F] Ensure resolutions of corporate trustees are valid

Where the trustee is a company, you should ensure that the requirements of the company's constitution relating to meetings are satisfied (e.g. notice of meeting and quorum) and decisions are recorded in the company's minute book within one month of the decision.

[6G] Understand the meaning of income of the trust estate

It is important to review the trust deed to determine how income is defined to ensure the resolutions are effective to avoid an unintended trustee assessment. Where allowed, using a definition of "income" that equates to "taxable income", can help to minimise differences between distributions to beneficiaries and the amounts on which they are taxable.

2 Activities of the Tax Avoidance Taskforce – Trusts
<https://www.ato.gov.au/general/trusts/in-detail/compliance/tax-avoidance-taskforce---trusts/>

[6H] Consider cost base reductions for timing difference distributions

If the amount paid to a unitholder for an income year exceeds their share of the trust's net (tax) income for that year, the cost base of the unit is required to be reduced. If the cost base has been exhausted, a capital gain may arise (under CGT event E4 or CGT event E10). You may be able to reduce this risk by aligning trust income with "taxable income" (if permitted by your trust deed).

[6I] Division 7A can apply to distributions to companies

Ensure that you have considered Division 7A when distributing income (directly or indirectly) to a corporate beneficiary if the amount thereof remains unpaid (a UPE) (see [7N]). Such a UPE may result in a deemed dividend if not placed on complying Division 7A terms. The ATO no longer accepts that corporate beneficiary UPEs arising after 1 July 2022 can be placed on 7 or 10-year Investment Agreements. Further, loans, payments or other benefits provided by the trust while the UPE remains may also result in a deemed dividend to the ultimate recipient.

[6J] Trust streaming requires special rules to be satisfied

If you wish to stream capital gains or franked dividends for the current year, you should ensure you comply with the trust tax streaming provisions.

[6K] ATO is focusing on developers claiming capital gains in trusts

The ATO may seek to treat capital gains as on revenue account and deny access to capital gains tax concessions (such as the 50% CGT discount). The ATO is focusing on this area for property development entities. You should ensure your position is correct and defensible.

[6L] Satisfying the trust loss and bad debt deduction rules

The trust loss provisions may operate to disallow deductions for current or prior year revenue losses or bad debts unless certain tests for changes in ownership and control are satisfied. The application of the tests depends on whether the trust is a fixed or non-fixed trust and is modified where a valid FTE is in place. The downside to making an FTE is that the trust will be liable to Family Trust Distribution Tax if a distribution is made to a person who is not a member of the family group.

[6M] Franking credits may not flow through a trust: ensure trustee is a qualified person

Where a trust (other than a fixed trust) holds shares that were acquired after 31 December 1997, franking credits can only be passed through to a beneficiary if both the trustee and beneficiary are qualified persons (unless an exception applies). This generally requires that the 45-day holding period test is satisfied (or 90 days for certain preferred equities). It is practically difficult (if not impossible) to satisfy this test without requesting the ATO to exercise its discretion, which can be obtained through a private binding ruling.

[6N] Review distributions from foreign trusts

The ATO holds the view that capital gains made by trustees of foreign trusts in respect of assets that are not taxable Australian property will be assessable to an Australian resident beneficiary as trust income. This view results in the denial of the general 50% CGT discount and prevents the beneficiary offsetting capital losses against the gain.

[6O] Review foreign beneficiary exclusion clauses

Newer trust deeds may (for stamp duty or land tax reasons) exclude foreign persons or other trusts that may have foreign beneficiaries from benefiting from the trust. Ensure that you have checked this prior to 30 June.

[6P] Deductions can be denied where income is injected into a loss trust

Where income is to be injected into a trust (e.g. as a distribution from another trust), losses and deductions otherwise available to the receiving trust may be denied and the trustee taxed on the income injected in the absence of an FTE. If an FTE is made, the trust will be liable to Family Trust Distribution Tax if a distribution is made to a person who is not a member of the family group.

[6Q] Deductions can be denied where income is injected into a loss company

Extreme care needs to be taken where a trust is distributing to a loss company if the taxable amount exceeds the amount of cash to be distributed to the company. Tax losses may be limited under the income injection rule to the extent of the injected amount (i.e. the distribution) and to the extent that the Commissioner believes it is fair and reasonable, even where an FTE has been made.

[6R] Interest expenses may be denied where they fund distributions

The ATO holds the view that interest on borrowings to fund contemporaneous distributions is not deductible. A similar view is also held where borrowings are used to fund the repayment of beneficiary loans or unpaid entitlements created from asset revaluation reserves of the trust.

[6S] Denial of interest deductions on money used to make interest free loans

Where a beneficiary of a discretionary trust borrows money (at interest) and on-lends (interest free) to the trust, the interest expenditure may not be deductible to the beneficiary even if they will receive trust distributions. Instead, you should consider charging interest on such loans.

[6T] Review family trust elections

Make sure all new trusts have made an election to be within the family group. The ATO takes the view that a valid FTE cannot be made before the end of the first year for which it is to operate. As an FTE may not be possible where the test individual dies, you should consider whether spare trusts should be created before 30 June which have made FTEs with respect to the test individual³ (especially where the group is large). You should also consider whether an FTE can and should be revoked or the identity of the test individual varied (there are strict limits on doing either of these).

[6U] Obtain TFNs before year end to avoid TFN withholding

Where a beneficiary has not provided their TFN to the trustee prior to receiving, or being made presently entitled to, a trust distribution, the trustee is required to withhold 47%. Trustees should obtain TFNs from beneficiaries who have not previously been entitled to a distribution to avoid this. Details of new beneficiaries need to be reported to the ATO by 31 July.

[6V] Superannuation deductions can be denied for directors of corporate trustees

Superannuation contributions for a director of a corporate trustee will generally only be deductible if the director is a common law employee of the trust and engaged in producing the assessable income of the trust.

[6W] Trust distributions to a superannuation fund can result in 45% tax

Non-arm's length income derived by a superannuation fund (which may include discretionary trust distributions or private company dividends) can be taxed at a rate of 45% in a superannuation fund. This may also apply to distributions from unit trusts that are not fixed in accordance with TR 2006/7.

[6X] Trust distributions to exempt entities can trigger anti-avoidance rules

Specific anti-avoidance rules can apply where distributions are made to tax exempt beneficiaries (e.g. a charity). If a distribution is intended to be made to an exempt entity, you will need to consider these provisions.

Additional notes

³ Unless an earlier year is nominated, the FTEs would need to be made after 30 June to be valid.

Section 7 – Companies

This section outlines a number of specific year-end taxation considerations that could apply to corporate taxpayers.

[7A] Be aware of ATO compliance activity

Areas targeted include: exploitation of COVID-19 stimulus measures (loss carry back, temporary full expensing measures)⁴; contrived arrangements designed to gain access to the reduced company tax rate; situations where the performance of the company is not comparable to similar businesses; there is low transparency of tax affairs; there are large, one-off or unusual transactions; a history of aggressive tax planning; choosing not to comply or regularly taking controversial interpretations of the law; where the lifestyle of the owners is not supported by after-tax income; private assets treated as business assets and poor governance and risk management systems⁵. You should consider whether any of your arrangements are those that have been identified by the ATO, and, if required, consider taking appropriate action.

[7B] Consider whether to carry back a current year tax loss

Corporate tax entities with an aggregated turnover of less than \$5 billion that have a tax loss for any of the income years ended 30 June 2020 to 30 June 2023 should consider whether to elect to carry back the loss to earlier profitable income years (being the income years ended 30 June 2019, 2020, 2021 and 2022) and generate a refundable tax offset. Note that, once received, the offset may reduce the balance of the company's franking account.

[7C] Check your corporate tax rate is either 25% or 30% for 30 June 2023

For the 2022–23 income year, a company can be subject to either the 25% tax rate or the 30% tax rate. The lower tax rate can be available where the company's aggregated turnover for the year is less than \$50 million and no more than 80% of the company's assessable income for the year is passive income. Passive income includes dividends (including franking credits), interest, rent, royalties, capital gains whether derived directly or indirectly through one or more interposed partnerships or trust estates. All other corporate tax entities are subject to tax at a rate of 30%.

[7D] Distributions funded by raising capital may not be frankable

Companies that are seeking to pay franked distributions to shareholders should ensure that these are not funded (directly or indirectly) by the company raising share capital as the dividend may be unfrankable. Draft legislation currently before the Senate applies broadly including to small closely held companies. Once enacted, this measure will apply to distributions made after 14 September 2022. You should ensure that any dividends planned for 2023 are not returned (directly or indirectly) as additional capital or non-share equity.

[7E] Check the franking rate for dividends to be paid before 30 June

If you are paying a franked dividend before 30 June, you should determine whether the maximum franking credit will be set having regard to the 25% tax rate or the 30% tax rate. The rules are similar to those outlined in [7C] above, however the company must use the actual turnover of the company for the prior financial year (the 2022 year for a dividend declared by 30 June 2023). This can result in a company being required to pay dividends franked to 25%, even though the profits out of which the dividend is paid were taxed at a higher rate. Further, if it is the company's first year, the franking rate can be deemed to be 25%.

[7F] Payment of franked dividends and sufficient profits

If you are seeking to pay a franked dividend where you have retained losses or a current year loss, you may not have "profits" to be able to pay a franked dividend. This issue can generally be managed where appropriate actions are taken before signing the accounts for the current year (e.g. by not applying the relevant loss against profits, or placing profits in a separate profit reserve).

4 <https://www.ato.gov.au/business/privately-owned-and-wealthy-groups/what-attracts-our-attention/>

5 Privately owned and wealthy group reviews
<https://www.ato.gov.au/Business/Privately-owned-and-wealthy-groups/What-attracts-our-attention/>

[7G] Distribution statements for franked distributions

A company that has made a franked distribution must provide the recipient with a distribution statement. The statement must be provided on or before the day of the distribution for public companies and within four months of the end of the income year for private companies. Note that the extension of time for private companies is only in respect of the preparation of the distribution statement.

[7H] Disclosing changes to the benchmark percentage for franked distributions

The benchmark rate refers to the percentage to which a dividend has been declared to be franked. The benchmark percentage is set at the time of making the first distribution for the relevant franking period – the income year in the case of a private company and each six-month period during the income year for a public company. Once set, all dividends paid during the same franking period must be franked to that franking percentage, with disclosures required if the percentage varies by more than 20% from one franking period to the next.

[7I] Review your franking account balance for a franking deficit

While a company can take into account franking credits expected to arise by 30 June in determining the extent to which a distribution is franked, care is needed to ensure that this does not create a franking deficit which can result in a liability to franking deficit tax and penalties. An exception from penalties can apply if the dividend is paid in the first year in which company tax becomes payable by a private company.

[7J] ATO is targeting franking credit trading arrangements

You should review any arrangement that purports to provide a return that is calculated by reference to franking credits. Such arrangements may fall foul of specific franking credit benefit provisions.

[7K] Debt that can be treated like equity

All loans made to companies during the current year should be reviewed to ensure that they are on terms that allow them to be treated as debt for tax purposes. Typically, this requires a maximum 10-year repayment period or an appropriate interest rate. An exception also exists for some small businesses that have at call loans. Failure to satisfy the debt provisions can result in interest payments and loan repayments being treated as non-deductible unfranked dividends.

[7L] Review 10-year loan agreements that are due to be repaid

Loans to companies made under loan agreements with a 10-year repayment period may be due for repayment by 30 June. If such loans are not repaid (e.g. the term is simply extended), the ATO may take the view that such loans are to be treated as equity for tax purposes with the consequences outlined above at [7K].

[7M] Review Division 7A and identify transactions

Where a private company pays an amount, makes a loan or forgives a debt owed by a shareholder or their associate (and ex-associate in some cases) a Division 7A deemed dividend may arise equal to the value of the benefit provided. The use of a company's assets (e.g. a company yacht) for private purposes at less than their market value can constitute a payment for these purposes. You should identify all transactions between a company and any associated entity (individual, trust, company or partnership).

[7N] Consider Division 7A for trust distribution to companies

Division 7A may apply where income of a trust is distributed to a company but not actually paid, creating a UPE to the company. It is currently the ATO practice to treat UPEs arising on or after 16 December 2009 (directly or indirectly) to a corporate beneficiary as a loan from the company to the trust.

[7O] Ensure Division 7A loan agreements are in place

Ensure that appropriate agreements are in place for any new loans made to shareholders or their associates. Consider whether new UPEs should be treated as loans before the lodgment date of the trust's tax return.

[7P] Carefully review wording of new loan agreements

A new loan agreement that replaces a Division 7A loan agreement may constitute a new loan, breach the refinancing rule and result in a deemed dividend. A new loan agreement may also only apply from the time it is entered into and may be ineffective. Ensure you properly consider these issues when implementing new loan agreements.

[7Q] Ensure payment of Division 7A MYRs and interest charges

Ensure that MYRs are made before 30 June in respect of Division 7A loans made in prior years. Where dividends need to be declared by 30 June to enable MYRs to be made, ensure necessary resolutions are made and offset agreements entered into before year end. The ATO may consider whether such arrangements are reimbursement agreements (see [\[6A\]](#)).

[7R] Review existing investment agreements

For prior year UPEs that have been placed on investment agreements, ensure that appropriate amounts of interest have been recorded and that the interest has been paid in cash. Ensure that 7 and 10-year investment agreements maturing this year are repaid or refinanced on 7-year complying loan terms.

[7S] Review for benefits provided indirectly by companies

Division 7A contains interposed entity provisions that may apply where a loan or payment is made from a company to an entity (for example, another company) which, in turn, provides a loan to a target entity. They can also apply where a company guarantees a loan for or on behalf of another entity or where a company has a UPE from a trust. These provisions may also apply to payments or loans made by a private company to another entity where the payment or loan is an ordinary commercial transaction such as a dividend.

[7T] Review Division 7A for any re-borrowings that occur

Ensure that payments of interest and principal under Division 7A compliant arrangements are not, directly or indirectly, re-borrowed from the same company.

[7U] ATO is targeting Division 7A for capitalisation of unit trusts or companies

The ATO is focusing on companies that capitalise unit trusts (from both a Division 7A and reimbursement agreement perspective). Please ensure you have properly considered these provisions and the potential high risk of ATO scrutiny.

[7V] Claiming deductions for losses and bad debts

If you are utilising prior year tax losses, you should consider whether the company has satisfied the continuity of ownership test and the business continuity test (consisting of the same and similar business tests). For the year in which it fails the continuity of ownership test, the company may be required to separately calculate a taxable income or tax loss for the period prior to and after the date the failure occurred. A tax loss for the period prior to the date the failure occurred may not be deductible. If you have made a loss in the 2016 or later income years, you should also consider whether the similar business test may provide a better opportunity to utilise losses in the future than the same business test.

[7W] Schemes to take advantage of deductions or capital losses

A specific integrity provision can operate where an amount of income or a capital gain ("the injected amount") accrues to a company which would not have accrued if the company did not have a tax loss, other deductions, or a capital loss. For example, if the company becomes entitled to income or a capital gain of a discretionary trust.

[7X] Making tax consolidation choice on time

If you are making a choice to consolidate, you need to record your choice in writing and lodge a separate notification form with the ATO. Both the notification form and the choice to consolidate from a particular date must be made by the time the tax return for the year in which the date occurs is lodged. You will also need to consider whether tax funding and tax sharing agreements are put in place before (or close to) year-end.

[7Y] Ensure you update tax cost calculations for tax consolidation

If a tax consolidated group was formed, or entities joined an existing tax consolidated group, during the year, you should ensure that you have recalculated the tax cost base of assets as this could materially impact your income tax calculations.

[7Z] Ensure exit calculations for disposals of subsidiaries

If entities have left a tax consolidated group, the cost base of the shares needs to be recalculated based on the underlying tax cost of assets and liabilities of the leaving entity. This can have a material impact on any capital gain or loss derived on sale of the leaving entity.

[7AA] Consider the reductions in accelerated depreciation under tax consolidation

You should review whether the cost of depreciating assets brought into a tax consolidated group has been deducted by the joining entity under accelerated depreciation measures (including instant asset write off and temporary full expensing). The tax cost setting amount for such assets cannot exceed their termination value with any reduction not re-allocated among other assets.

[7BB] Research and Development Tax Incentive

Depending on its size, a company undertaking eligible R&D activities may qualify for either a refundable R&D tax offset of between 43.5% and 48.5% (for smaller entities with an aggregated turnover of less than \$20 million) or a non-refundable tax offset of between 38.5% and 46.5% (for all other entities). The amount of the offset is linked to the company's corporate tax rate and proportion of R&D expenditure for the year. The company's business records must be sufficient to verify the nature and eligibility of the R&D activities, the amount of expenditure incurred on those activities and the relationship between the expenditure and the R&D activities. These records should have been maintained contemporaneously.

[7CC] Research and Development considerations

Make sure you have considered specific issues relating to R&D claims including: reducing claims in respect of expenditure to an associate that remain unpaid at year end, obtaining an overseas (advance) finding in respect of R&D activities carried out overseas, and record keeping requirements (an area of ATO focus).

[7DD] Varying the pay-as-you-go income tax instalments

Determine whether the PAYG instalment for the final quarter of the year can be varied.

Additional notes

Section 8 – Partnerships

This section outlines several specific year-end taxation considerations that could apply to partnerships.

[8A] Comply with the ATO guidelines for professional practices

Professional partnerships should review their profit allocation arrangements in light of the ATO revised guidelines and consider what, if any, action should be taken. The revised guidelines will not apply in relation to pre-existing profit allocation arrangements until 1 July 2024 provided they continue to comply with the previous guidelines, are commercial for all parties involved and do not exhibit high risk factors. One of the identified high risk factors is the participation of non-equity partners in profit allocation arrangements. We have developed a Professional Firms Toolkit to assist with the application of the guidelines⁶.

[8B] Review changes in partners for no-goodwill professional practices

Administrative practices exist dealing with taxing events that may arise upon the transfer of interests in no-goodwill professional partnerships, trusts and incorporated practices. The administrative practices do not apply where a partner assigns their interest to a related entity. All no-goodwill professional practices should consider the application of the ATO's administrative views on their structures.

[8C] Varying distribution amounts to partners

For common law partnerships, consider the ability to vary income distribution entitlements before 30 June (provided this is allowed under the partnership agreement).

[8D] Review Division 7A for contributions made by a company

You should review partnership accounts to ensure that amounts of partnership equity and undrawn profits owing to a company are not inadvertently recorded as loans. You should consider whether Division 7A applies to any payments made by the company to the partnership (or to entities through the partnership).

Additional notes

⁶ <https://professionalfirmstoolkit.pitcher.com.au/riskassessment>

Section 9 – Managed investment trusts

This section outlines several specific year-end taxation considerations that could apply to managed investment trusts (MIT).

[9A] Determine which regime applies for the income year

You should determine whether you are going to apply the AMIT regime or the non-AMIT regime for the current year. Please note that once you have elected into the AMIT regime and meet the qualification requirements, the election is irrevocable.

[9B] Review eligibility to be a MIT annually

Access to the concessional MIT withholding rates, the ability to maintain a valid capital account election where relevant and the ability to maintain an election to be an AMIT are conditional on satisfying the requirements to be a MIT. Those requirements include that you do not carry on 'trading' activities. It is critical to review compliance with the eligibility requirements on an annual basis to determine whether a breach of the provisions may occur and what preventative measures (if any) you should be considering before 30 June.

[9C] AMIT start-up rule

Where you qualified as an AMIT under the transitional (startup) rule, it is critical to determine whether the AMIT provisions still apply (this year or next year). There are anomalous results which can occur for transitioning between CGT events E10 to E4 for members and differences in how distributions must be managed under both provisions.

[9D] Complying with the AMIT provisions for AMITs

If it is the first year that the AMIT regime is to be applied, ensure systems and processes are in place to deal with the distribution review, including reconciliations that are required to avoid the trustee being taxed on certain unreconciled amounts. AMMA (investor) statements are generally required to be given to investors no later than 3 months after the end of the income year.

[9E] MIT fund payments

The withholding tax rate on fund payments to non-residents during the 2023 income year is 15% for exchange of information (EOI) countries and 30% for non-EOI countries. A special rate of 10% applies to distributions related to certain energy efficient buildings. A payment can only be treated as a fund payment if it is made during the income year or within three months (or six months if ATO agreement is obtained) after the income year. The higher 30% withholding rate also applies to fund payments to non-residents that are attributable to non-concessional MIT income (including income from certain stapled structures, farming operations, residential housing investments and underlying trading trust income).

[9F] Completing your CRS and FATCA reports

CRS and FATCA scheme documents must be provided to the ATO by 31 July 2023. The ATO has developed a tool to assist in the preparation of the CRS report for smaller fund operators for lodgement via the ATO Portal. If you have not completed your due diligence procedures, you need to ensure that these are completed in time for reporting.

[9G] Lodging TFN reports

Investment bodies are required to lodge a Quarterly tax file number (QTFN) and Australian business number (ABN) report for any quarter in which they accept a new TFN or ABN quotation from an investor. The report should be lodged no later than 28 days after the end of each quarter.

[9H] Distributing income of the Fund

Where the Fund is not an AMIT, ensure you have considered the trust deed before year end and considered the quantum of income that is distributed under the trust deed. If a lesser amount is to be distributed, ensure that appropriate resolutions are in place. If there is a risk that the Fund is to be taxed as a company (e.g. under Division 6C) for the income year, consider the implications for distributions of the Fund (which may result in unfranked dividends to investors).

Additional notes

Section 10 – Capital gains tax

This section considers several year-end considerations for capital gains that may have been made during the income year.

[10A] Consider whether the sale of property is revenue or capital

The ATO continues to closely scrutinise whether receipts from property developments should be on revenue account rather than capital account. Ensure that you consider the ATO's guidelines⁷ for determining whether a gain or loss is on revenue account or capital account.

[10B] Review your entitlement to the CGT discount

A capital gain can be reduced by 50% where it is in respect of a CGT asset held by a resident individual or trust for more than 12 months prior to the CGT event happening. Not all CGT events qualify for the 50% CGT discount. A partial CGT discount may be available for non-resident individuals and temporary resident individuals in some circumstances.

[10C] Small business CGT concessions

Capital gains on active assets may qualify for the small business CGT concessions if you can satisfy the \$6 million net assets test (on a connected entity and affiliate inclusive basis) or the \$2 million turnover test (on a connected entity and affiliate inclusive basis). As the ATO is targeting and reviewing compliance with these provisions, you should review your ability to apply these concessions to capital gains made during the income year. The CGT concession stakeholder rule is dependent on distributions for the income year (which may need to be considered in your planning).

[10D] Deferring capital gains under earnout arrangements

Special rules apply where the consideration in a sale and purchase of a business includes an earnout arrangement, which allow taxpayers to defer their capital gain on a sale. As the rules only apply in limited circumstances, you should carefully consider their application.

[10E] Review CGT exemptions that may apply

There are several CGT exemptions that can apply to reduce capital gains and losses made during an income year. You should carefully consider each capital gain that has been made and whether an exemption may apply.

[10F] Review CGT rollovers that may apply

There are several CGT rollovers that can apply to defer capital gains and losses made during an income year. You should carefully consider each capital gain that has been derived and whether a rollover may apply.

[10G] Applying the main residence exemption

A capital gain made from the sale of a dwelling that was your main residence may be reduced if you qualify for the main residence exemption. Special rules apply in a range of circumstances. You should ensure you have properly considered these rules. The ATO has stated that it will focus on claims for the main residence exemption in respect of properties rented through Airbnb and similar platforms.

[10H] Review wash sale arrangements

Where CGT assets (e.g. shares) are sold for a capital loss and substantially the same assets are reacquired shortly thereafter, the ATO may seek to apply Part IVA (the general anti-avoidance provision). Be careful in implementing wash sale arrangements, especially if the transactions occur close to 30 June.

⁷ <https://www.ato.gov.au/General/Property/In-detail/Are-you-in-the-business-of-renovating-properties/>

Additional notes

Section 11 – Finance issues

This section considers several year-end considerations for financial transactions and financial type entities for the income year.

[11A] Consider tax issues on loan rationalisations

It is common to rationalise intra-group loans at year-end to simplify arrangements and Division 7A compliance. However, loan rationalisation can give rise to significant tax consequences (e.g. reimbursement agreement and indirect Division 7A issues), and may have other tax implications if one of the entities involved has a deficiency in net assets (e.g. debt forgiveness or tainting type issues). Ensure you have properly considered any offset arrangements planned for year-end.

[11B] Review deductibility of interest

If you have incurred significant financing costs during the year, you should consider whether you may be precluded from deducting some or all of the costs (where you cannot trace the borrowing to income producing assets). Loans used to finance repayments of UPEs may give rise to non-deductible debt.

[11C] Interest that exceeds the benchmark may be non-deductible

Where interest charged on a debt instrument exceeds the benchmark rate of return plus 150 basis points, the interest expense may be treated as non-deductible. This can occur for instruments charging significantly high interest rates (e.g. mezzanine debt).

[11D] Review capital protected borrowings

Interest deductions may be denied in respect of the funding of capital protected shares, units or stapled securities. You should review capital protected arrangements.

[11E] Consider the taxation of financial arrangements provisions for large groups

The TOFA provisions apply to taxpayers that have an aggregated turnover of at least \$100 million, financial assets of at least \$100 million or gross assets of at least \$300 million and certain other categories of taxpayers. The provisions require gains and losses (e.g. interest) to be accrued.

[11F] TOFA may apply to smaller groups

TOFA may also apply where a taxpayer is party to an arrangement that is a qualifying security (e.g. a loan that has deferred interest and has a term of more than 12 months). On an annual basis, you need to consider whether the provisions will start to apply to your entity or group of entities.

[11G] Consider using the TOFA elections

The TOFA provisions allow taxpayers to make a number of elections that allow the tax treatment of financial instruments to be aligned with accounting positions. This can simplify compliance (e.g. for forex transactions), but may bring forward the taxing point (e.g. unrealised forex gains). Elections generally need to be made before 30 June.

[11H] ATO is focusing on TOFA compliance

The ATO is conducting ongoing compliance activity. Accordingly, if your group is subject to TOFA, you should ensure you are comfortable with your TOFA positions.

[11I] Reporting CRS information to the ATO for investment entities

If you run a family office or a managed investment scheme, you may need to disclose information to the ATO by 31 July for accounts held by foreign tax residents.

Additional notes

Section 12 – International tax

This section considers a number of year-end considerations where you have international transactions, or inbound or outbound investments.

[12A] Be aware of ATO compliance activity

The ATO is targeting international transactions and has received substantial funding for its Tax Avoidance Taskforce, targeting both High Wealth Individuals and multinationals. One area of focus relates to gifts (including direct and indirect distributions from a foreign trust⁸) and loans from a related overseas entity with the ATO seeking to ensure the arrangements are genuine⁹. You should carefully consider whether your arrangements with international parties are likely to be scrutinised by the ATO.

[12B] Thin capitalisation

The thin capitalisation provisions may permanently deny deductions for interest and other debt deductions of Australian entities that have foreign operations or controlled foreign entities (outbound investors) and of foreign entities that have Australian operations or controlled Australian entities (inbound investors). The provisions broadly limit deductions by applying a safe harbour debt to equity ratio. For 2022–23, the provisions broadly limit deductions by applying a safe harbour debt-to-equity ratio. Consider examining your tax gearing ratios before 30 June as there are strategies to minimise the extent of the denied deduction.

From 1 July 2023, the thin capitalisation provisions will significantly change limiting interest and other debt deductions to a percentage (30% being the default percentage) of earnings before interest, tax, depreciation and amortisation (“EBITDA”) calculated on a tax basis. You should consider how the new provisions will impact your financing arrangements.

[12C] ATO will data match your foreign income under CRS

If you are an Australian resident for tax purposes, the ATO will be receiving CRS tax information from other jurisdictions. You should ensure that you have fully included all income from foreign financial accounts in your Australian income tax return.

[12D] Tax residency

Ensure you have checked the residency of both resident and non-resident persons (especially foreign incorporated companies). This can impact the amount of income included in a tax return and may also impact on the operation of other provisions. A change in residency can also trigger taxable events.

[12E] Determine if you are subject to the hybrid mismatch rules

The hybrid mismatch rules can apply where two tax jurisdictions treat entities, instruments or branches differently. The rules may permanently deny or defer a deduction or include an amount in a taxpayer’s assessable income and may result in material tax adjustments in many cases. Broadly, the provisions operate where the same payment results in a deduction in two countries or where a deduction is provided for a payment in one country that exceeds the amount that is subject to tax in the recipient country. These rules must be considered by anyone with foreign income.

[12F] Reducing your income if you are a temporary resident

Subject to an applicable DTA, a foreign national who is considered to be an Australian tax resident could be liable to Australian tax on their worldwide income. However, there is an exception for most income if an individual is considered a “temporary resident”. Certain temporary residents may also be exempt from the Medicare Levy.

[12G] Special tax rates for working holiday makers

If you are a working holiday maker, the first \$45,000 of income will be taxed at 15%, with the remainder taxed at ordinary resident rates. If you employ or are planning to employ working holiday makers, you need to register as an employer of working holiday makers before making payments to them. In addition, you will need to withhold tax at working holiday maker rates.

8 Refer <https://www.ato.gov.au/General/Trusts/In-detail/Distributions/Receiving-payments-or-assets-from-foreign-trusts/>

9 Refer <https://www.ato.gov.au/Business/Private-owned-and-wealthy-groups/Tax-governance/Tax-governance-guide-for-private-owned-groups/Gifts-or-loans-from-related-overseas-entities/>

[12H] Distributions to non-Australian resident beneficiaries

Foreign sourced capital gains and capital gains relating to assets that are not taxable Australian property that are distributed to non-residents through an Australian non-fixed trust can be taxable to the non-resident. Care therefore needs to be taken in distributing such amounts to non-residents.

[12I] Passing conduit foreign income through Australia tax-free

The CFI provisions may allow unfranked dividends to be paid by an Australian resident company to non-resident shareholders free of withholding tax where certain conditions are met. Certain time constraints apply to the CFI distribution to a non-resident through a chain of entities.

[12J] Review your entitlements to foreign income tax offsets

The FITO rules allow a taxpayer to claim a tax offset against their Australian tax for foreign income tax paid on their foreign income regardless of when it is paid. FITOs available on foreign capital gains may be reduced where the gain is subject to the CGT discount or other concessions or reduced by losses.

[12K] Consider whether foreign distributions or gains to a company can be exempt

Provided certain conditions are satisfied, an Australian corporate tax entity may not be subject to Australian tax on: (a) profits of a foreign branch (including those received indirectly through a partnership or trust); (b) foreign equity distributions (including those received indirectly through a partnership or trust); and (c) capital gains made on the disposal of a shareholding in an active foreign company.

[12L] Indirect foreign distributions may not be exempt

The ATO has taken the view that, in relation to foreign equity distributions received indirectly through a partnership or trust, the Australian corporate tax entity must be entitled to the income at the time the dividend is received by the partnership or trust. This can present particular difficulties where the interposed trust is a discretionary trust. It is critical you identify this issue before 30 June.

[12M] Review the tax treatment of sales of assets by non-residents

Non-residents and temporary residents can dispose of certain Australian assets without tax consequences. However, non-residents and temporary residents are no longer eligible for the 50% CGT discount (subject to transitional rules). In addition, with only limited exceptions, a non-resident will be denied the ability to claim the main residence exemption.

[12N] Review deductions incurred in earning foreign income

Generally, a deduction may be denied for a loss or outgoing incurred in earning exempt or NANE income. Debt deductions incurred in respect of income previously attributed under the CFC regime as well as foreign non-portfolio equity distributions paid to a company are exceptions to that general rule.

[12O] Deemed dividends from non-resident CFCs

Integrity provisions can operate to deem there to be an unfranked dividend where certain benefits are provided by a CFC to a shareholder or associate of the shareholder. These provisions are similar to, but take precedence over, Division 7A and can operate even where the transactions are at an arm's length price.

[12P] Denial of deductions where withholding tax is not paid

A deduction may be deferred or denied if applicable withholding tax obligations are not satisfied (e.g. interest or royalty withholding tax).

[12Q] Consider the impact of distributions to non-resident beneficiaries

If a non-resident beneficiary is presently entitled to the income of the trust, the trustee will be assessed on that non-resident beneficiary's share of the net (tax) income of the trust. Where the income consists of interest, dividends, royalties or CFI, special withholding tax rates may apply. The full 50% CGT discount is not available for a capital gain (generally accruing after 8 May 2012) included in the taxable income of a trust distributed to a non-resident or temporary resident.

[12R] Deemed income from non-resident trusts, CFCs and other offshore assets

If you hold an investment in, or have provided property or services to, a foreign trust or company, you should consider whether you need to bring to account accrued assessable income under provisions such as the transferor trust rules or the CFC provisions. The CFC regime can apply to attribute the income of a foreign company that is controlled by an Australian resident(s) and can result in material tax adjustments in many cases. The provisions can also apply to Australian taxpayers that hold a minority interest in a CFC.

[12S] Review foreign exchange gains or losses

Consider whether the (tax) foreign exchange provisions will apply. Consider if there are any opportunities to reduce compliance under the provisions by making certain elections before year-end. The treatment of foreign exchange gains and losses is considered at [3K] and [4N].

[12T] Review for benefits provided indirectly by companies

Australian residents who invest via foreign hybrid companies or limited partnerships in the US and UK that are treated as fiscally transparent entities may be required to lodge an Australian partnership tax returns on behalf of the foreign hybrid.

Additional notes

Section 13 – Transfer pricing and cross border

This section considers several significant integrity measures that apply to international groups, including the transfer pricing regime. It is critical that you consider this section if you have cross-border transactions.

[13A] Review your compliance with the transfer pricing regime

All taxpayers with international dealings must have evidence to demonstrate that they have applied the transfer pricing provisions. All international related party dealings are captured, and an entity needs to self-assess adjustments to their tax return where arm's length conditions (rather than the actual conditions) may provide for different results. The ATO will continue to target this area.

[13B] Ensure contemporaneous documentation for transfer pricing

Taxpayers are precluded from receiving relief from penalties in the event of an ATO initiated transfer pricing adjustment if they do not have contemporaneous documentation in place at the time of lodging their income tax return. In preparing an income tax return, taxpayers are required to complete an IDS and disclose the percentage of their related party transactions that are covered by contemporaneous transfer pricing documentation. It is the public officer's responsibility to ensure they do not make a false or misleading statement in the tax return.

[13C] Accessing simplified record keeping for transfer pricing

The ATO has developed two key categories of simplified record keeping obligations for certain taxpayers. Broadly, the first category includes options for particular classes of taxpayers (i.e. distributors and small business taxpayers). The second category includes options for particular classes of international related party dealings, including transactions based on certain materiality levels, low value adding intragroup services, technical services and certain inbound / outbound low-level loans. A choice to use these options needs to be notified to the ATO.

[13D] Determine your ATO risk rating for international arrangements

The ATO has released guidance on its compliance approach to the transfer pricing outcomes associated with inbound distributors, offshore hubs and cross border financing that categorises the risk of an ATO transfer pricing investigation. You should determine your risk rating with respect to your arrangements.

[13E] Determine if you are an SGE

An SGE is (a) an entity that has an annual income of \$1 billion or more; or (b) a member of a group of entities that is consolidated for accounting purposes and has a consolidated annual income of \$1 billion or more. Administrative penalties are increased for SGEs. Certain SGEs are subject to several specific reporting measures (see [\[13H\]](#)). The definition of an SGE includes groups headed by trusts, partnerships and individuals and entities that are not otherwise consolidated (due to certain exceptions in accounting standards).

[13F] Consider the multinational anti-avoidance law for SGEs

If you are an SGE, consider whether your arrangements are within the scope of the MAAL. Generally, the MAAL can apply to cross border transactions that result in an Australian tax benefit or a foreign tax benefit. The ATO are heavily targeting such transactions.

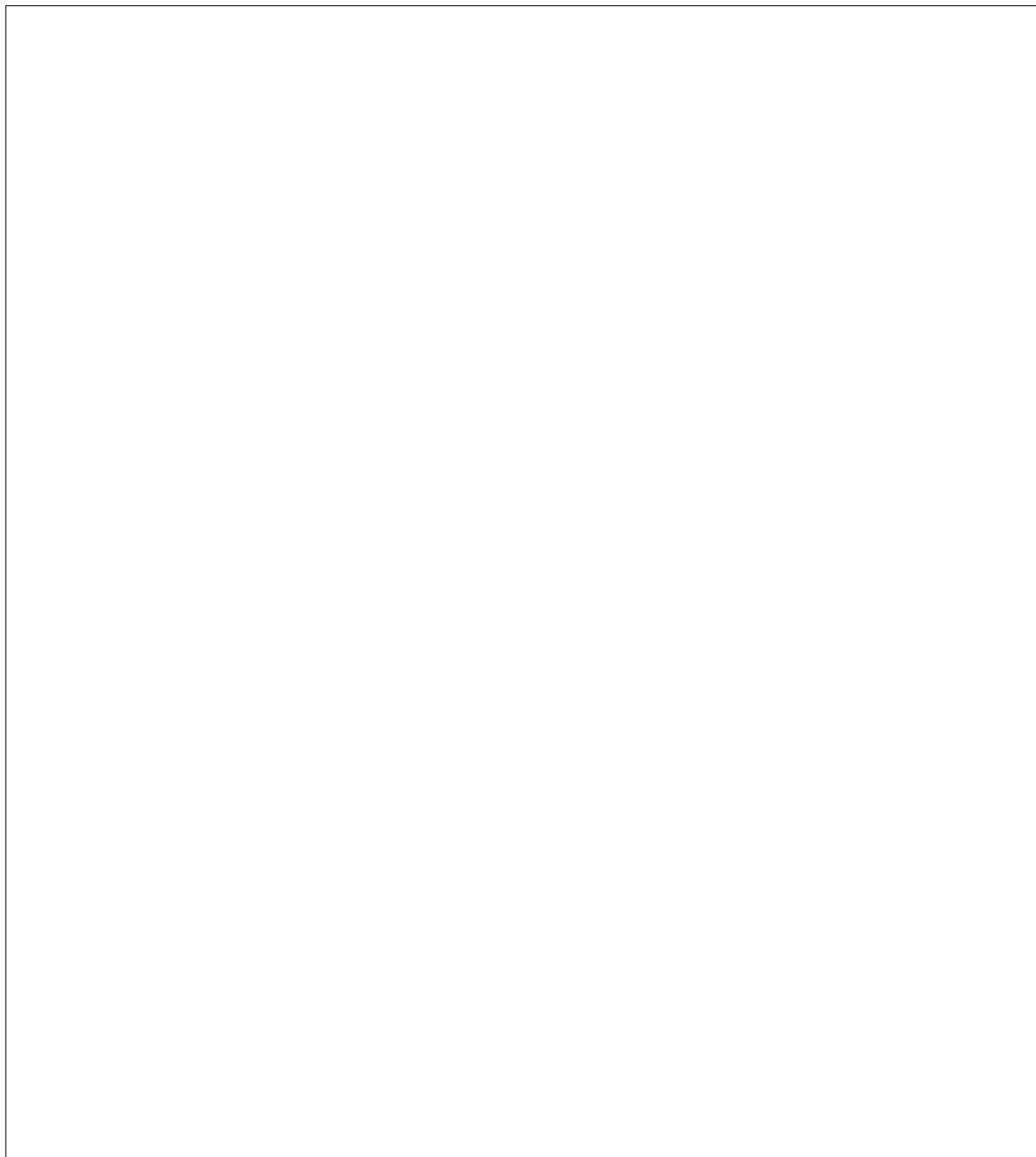
[13G] Diverted profits tax for SGEs

The diverted profits tax (DPT) can broadly apply to arrangements entered into with a foreign associate that has the principal purpose, or one of the principal purposes, of obtaining an Australian tax benefit or foreign tax benefit. There are some exceptions that can be applied. If you are an SGE, consider whether your arrangements are within scope of the DPT.

[13H] Country-by-country reporting for CbC reporting entities

If you are a CbCRE you will be required lodge an Australian local file and group master file with the ATO. The ATO must also be notified as to which entity within the global group (often the parent entity) has lodged the group's CbC report with the tax authority in its country of residence. A CbCRE is a SGE (see [\[13E\]](#)) that is a public or private company that is a member of a global group with consolidated revenue of \$1 billion or more.

Additional notes



Section 14 – Superannuation funds

This section outlines several specific year-end superannuation planning and taxation considerations.

[14A] Be aware of ATO compliance activity

The ATO is expected to continue to focus on the NALI rules and whether income derived by self-managed superannuation funds should be taxed at the top marginal tax rate, particularly where above average profits are reported or the fund is part of a group associated with a high net worth individual. The ATO is also likely to begin enforcing administrative penalties for compliance breaches by SMSF trustees with a lesser willingness to remit those penalties than has been common in recent years. Other areas of ATO focus are likely to include valuation and holding confirmations for unlisted investments, whether the lease terms are being met where the tenant is a related entity and whether fund investment strategies are being complied with and regularly reviewed.

[14B] Employer deductions for superannuation contributions

For an employer to be entitled to a deduction for superannuation contributions, the contribution must be received by the superannuation fund on or before 30 June. The SG contribution rate increased to 10.50% of an employee's OTE from 1 July 2022¹⁰. An employer does not have to make SG contributions in respect of employee's salary over a "maximum salary base" (\$60,220 per quarter for the year ending 30 June 2023). From 1 July 2022 the \$450 monthly salary or wage threshold for a liability to SG to arise will be removed.

[14C] Non-deductible superannuation guarantee charge

Employers who fail to pay contributions within 28 days of the end of the quarter are liable to pay a non-deductible SG charge.

[14D] Review compliance with the concessional contributions cap

Make sure you have complied with the annual concessional contribution cap (\$27,500 for the income year ended 30 June 2023) and consider whether additional concessional contributions could be made before 30 June.

[14E] Review compliance with the non-concessional contributions cap

The annual non-concessional contributions cap is \$110,000. Individuals with a total superannuation balance in excess of \$1.7 million (at 30 June 2022) will have a non-concessional contribution cap of \$nil. Taxpayers under the age of 67 can, in certain situations, bring forward up to two years' worth of non-concessional contributions provided the brought forward amount does not result in the individual's total superannuation balance exceeding \$1.7 million.

[14F] Making low income spouse superannuation contribution

You may be entitled to a tax offset of up to \$540 per year if you make contributions to your spouse's superannuation account if their income (including reportable fringe benefits and reportable employer superannuation contributions) is less than \$40,000.

[14G] Consider the cap on superannuation transfers into retirement products

If you are currently running pensions, or are about to commence pensions, consider the implications of the \$1.7 million transfer balance cap on your superannuation account balances, and whether you will need to transfer excess amounts to an accumulation account.

[14H] Additional contributions tax for higher income earners

Individuals with income exceeding \$250,000 are liable to an additional 15% contributions tax (i.e. bringing the total rate to 30%) on concessional contributions for the year. You should take this into consideration when making superannuation contributions prior to year-end.

¹⁰ The contribution rate will increase by 0.5% each year until it reaches 12% on 1 July 2025.

[14I] Withdrawing super amounts under the first home super saver scheme

The FHSS Scheme allows voluntary concessional and non-concessional contributions made after 1 July 2017 (along with associated deemed earnings) to be withdrawn to assist with the purchase of an individual's first home. The maximum amount that can be withdrawn is \$50,000.

[14J] Contributing the proceeds of downsizing to superannuation

Individuals over the age of 60 who enter into a contract to sell their home may be able to contribute the proceeds from selling their home, up to a maximum of \$300,000, into their superannuation fund. The individual (or their spouse) must have owned the home for at least 10 years and be eligible for a full or partial exemption under the CGT main residence exemption. The qualifying age reduced to 55 for contributions made on or after 1 January 2023. To qualify for this concession, contributions must be made within 90 days (or such further period as the ATO allows) of the date of settlement of the sale.

Additional notes



Section 15 – Tax administration and integrity

This section considers a number of additional integrity measures (not otherwise covered in this document) that should be considered with your year-end planning. Please also refer to each specific section for integrity rules that may otherwise apply to those areas (e.g. trusts and section 100A).

[15A] Part IVA

As tax planning strategies may reduce taxable income, it is always prudent to consider whether Part IVA could apply in relation to any material tax planning strategies that may have been implemented.

[15B] Promoted schemes

Be careful of schemes that are promoted around year-end to reduce taxable income for the year. The ATO has produced guidance on what to look out for and what attracts its attention.

[15C] Phoenix activity

Illegal phoenix activity is broadly defined as causing a new company to be created to continue the business of a company that has been deliberately liquidated to avoid paying its debts, including taxes and employee entitlements. The ATO continually conducts reviews where such activity is suspected. Be wary of schemes that promote deliberately liquidating companies to avoid paying debts.

[15D] Black economy

You should ensure that you comply with reporting requirements for your tax and superannuation obligations to the ATO and other relevant authorities as there are serious consequences for avoiding tax.

Additional notes

Section 16 – Appendix: Tax rates

Resident individual rates

2022–23	
Taxable income	Tax payable
\$0 – \$18,200	Nil
\$18,201 – \$45,000	19% of excess over \$18,200
\$45,001 – \$120,000	\$5,092 + 32.5% of excess over \$45,000
\$120,001 – \$180,000	\$29,467 + 37% of excess over \$120,000
\$180,001+	\$51,667 + 45% of excess over \$180,000

2023–24	
Taxable income	Tax payable
\$0 – \$18,200	Nil
\$18,201 – \$45,000	19% of excess over \$18,200
\$45,001 – \$120,000	\$5,092 + 32.5% of excess over \$45,000
\$120,001 – \$180,000	\$29,467 + 37% of excess over \$120,000
\$180,001+	\$51,667 + 45% of excess over \$180,000

Resident minor rates

2022–23	
Taxable income	Tax payable
\$0 – \$416	Nil
\$417 – \$1,307	66% of excess over \$416
\$1,308+	45% of total income that is not excepted income#

Excepted income includes employment income

2023–24	
Taxable income	Tax payable
\$0 – \$416	Nil
\$417 – \$1,307	66% of excess over \$416
\$1,308+	45% of total income that is not excepted income#

Excepted income includes employment income

Medicare levy rates – taxpayers eligible for the seniors and pensioners tax offset

2022–23	
Taxable income	Levy payable
\$0 – \$38,365	Nil
\$38,366 – \$47,956	10% of excess over \$38,365
\$47,957	2% of entire amount

The rates may change if the taxpayer has a spouse on 30 June and family income is below \$53,406 plus \$3,760 for each dependant child or student

2023–24	
Taxable income	Levy payable
\$0 – \$38,365	Nil
\$38,366 – \$47,956	10% of excess over \$38,365
\$47,957	2% of entire amount

The rates may change if the taxpayer has a spouse on 30 June and family income is below \$53,406 plus \$3,760 for each dependant child or student

* If the individual received a lump sum superannuation payment and is entitled to a tax offset in respect thereof, taxable income is reduced by so much of the taxable component of the payment as does not exceed the low rate cap.

Medicare levy rates – other individuals

2022–23	
Taxable income	Levy payable
\$0 – \$24,276	Nil
\$24,277 – \$30,345	10% of excess over \$24,277
\$30,346	2% of entire amount

The rates may change if the taxpayer has a spouse on 30 June and family income is below \$40,939 plus \$3,760 for each dependant child or student

2023–24	
Taxable income	Levy payable
\$0 – \$24,276	Nil
\$24,277 – \$30,345	10% of excess over \$24,277
\$30,346	2% of entire amount

The rates may change if the taxpayer has a spouse on 30 June and family income is below \$40,939 plus \$3,760 for each dependant child or student

* If the individual received a lump sum superannuation payment and is entitled to a tax offset in respect thereof, taxable income is reduced by so much of the taxable component of the payment as does not exceed the low rate cap.

Medicare levy surcharge thresholds

2022–23		
Singles	Families	Rate #
\$0 – \$90,000	\$0 – \$180,000	0.00%
\$90,001 – \$105,000	\$180,001 – \$210,000	1.00%
\$105,001 – \$140,000	\$210,001 – \$280,000	1.25%
\$140,001+	\$280,000+	1.50%

While the surcharge is calculated on taxable income, liability to the surcharge is based on income for surcharge purposes exceeding the thresholds

2023–24		
Singles	Families	Rate #
\$0 – \$90,000	\$0 – \$180,000	0.00%
\$90,001 – \$105,000	\$180,001 – \$210,000	1.00%
\$105,001 – \$140,000	\$210,001 – \$280,000	1.25%
\$140,001+	\$280,000+	1.50%

While the surcharge is calculated on taxable income, liability to the surcharge is based on income for surcharge purposes exceeding the thresholds

Non-resident individual rates

2022–23	
Taxable income	Tax payable
\$0 – \$120,000	32.50%
\$120,001 – \$180,000	\$39,000 + 37% of excess over \$120,000
\$180,001+	\$61,200 + 45% of excess over \$180,000

2023–24	
Taxable income	Tax payable
\$0 – \$120,000	32.50%
\$120,001 – \$180,000	\$39,000 + 37% of excess over \$120,000
\$180,001+	\$61,200 + 45% of excess over \$180,000

Working holiday maker rates

2022–23	
Taxable income	Tax payable
\$0 – \$45,000	15%
\$45,001 – \$120,000	\$6,750 + 32.5% of excess over \$45,000
\$120,001 – \$180,000	\$31,125 + 37% of excess over \$120,000
\$180,001+	\$53,325 + 45% of excess over \$180,000

2023–24	
Taxable income	Tax payable
\$0 – \$45,000	15%
\$45,001 – \$120,000	\$6,750 + 32.5% of excess over \$45,000
\$120,001 – \$180,000	\$31,125 + 37% of excess over \$120,000
\$180,001+	\$53,325 + 45% of excess over \$180,000

Company tax rates

2022–23	
Base rate entity	25%
<i>Aggregated turnover less than \$50m and passive income no more than 80% of total assessable income</i>	
All other companies	30%
<i>The franking rate for dividends paid during 2022–23 year will be 25% if the paying company's aggregated turnover for 2021–22 was less than \$50m and its passive income for 2021–22 was no more than 80% of total assessable income for 2020–21</i>	

2023–24	
Base rate entity	25%
<i>Aggregated turnover less than \$50m and passive income no more than 80% of total assessable income</i>	
All other companies	30%
<i>The franking rate for dividends paid in the 2023–24 year will be 25% if the paying company's aggregated turnover for 2022–23 was less than \$50m and its passive income for 2022–23 was no more than 80% of total assessable income for 2022–23</i>	

Private company loans (Division 7A)

Income year	%
2023–24	8.27
2022–23	4.77
2021–22	4.52

Private company interest only investment agreements (Division 7A)

Income year	7-year %	10-year %
2023–24	8.27	10.26
2022–23	4.77	6.82
2021–22	4.52	6.51

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