WMC accounting

YOUR Knowledge

Juggling tax losses

We are often asked whether it's possible to offset a loss in one company against the profit in another.

The answer is that there is no automatic way of offsetting losses and profits between your companies.

Most people try to manage a situation like this by putting through charges between the companies after year end (for example, a charge from the profit making company to the loss making company for 'management fees'). This is not an effective strategy and creates a risk position for you.

Each company is an independent entity for tax purposes and needs to account for its tax position separately. This could result in one of your companies having a tax liability and the other having a tax loss which will be carried forward. In this case, the carry forward loss will continue to be available for a future year in which your company derives a taxable income. Providing there is a continuing majority of ownership of the loss company in both the loss year and the year in which you make a profit and seek to claim the loss, then there is no time limit on carrying forward the losses.

In the event that your loss company never made a profit in future years, then it is possible that the losses would be foregone.

One option available for you is to tax consolidate the two companies. Under a tax consolidation the two companies are dealt with as one for tax purposes. This allows you to offset profits and losses between the companies. To tax consolidate the two companies there must be a head company and a subsidiary. The fact that they are commonly owned by the same shareholders is not enough – you need to have a head company in place. If this is your situation then you can elect to tax consolidate the two companies for the 2011 year. If the shareholders are private individuals or held through family trusts then you may need to complete a restructure of ownership first. In this case, tax consolidation will only be available in a future year.

The decision to tax consolidate brings with it a range of requirements; it is not simply a matter of saying that you are tax consolidated. The fact that your accounts may be consolidated for accounting purposes does not mean that you are tax consolidated. Tax consolidation is a specific process that you need to go through and will include the resetting of your cost base for tax purposes.

Tax consolidation makes sense in some situations but is not appropriate for everyone. It comes with an initial set up cost and will place ongoing requirements on you. It does, however, provide a number of benefits. *If this sounds like your situation, let us advise you on the implications of tax consolidation and determine whether it is advantageous for you.*

Paid leave for Dads

If the Government holds on to power, Dads will qualify for two weeks paid parental leave from 1 January 2013.

Like the existing paid parental leave scheme, the 'Dads and Partner Pay' is paid at the minimum wage - currently $589.40. The payment applies to Dads and partners sharing the care of a new born (including adopting parents and same sex couples).

The payment is likely to be administered by the Family Assistance Office rather than through the employer.

The payment will be available in addition to any employer-funded paid leave but cannot be taken at the same time the employee is taking paid leave.

Employees are able to take three weeks unpaid parental leave at the same time as their partner after the birth of the child. It appears that while the payments to Dads can be taken at the same time as the existing paid parental leave payments for the primary carer – the total payments to the parents cannot exceed the existing 18 weeks.

Unlike the existing paid parental leave scheme, Dads will not be able to work while receiving the benefit and they cannot transfer any unused payment entitlement.

The scheme is means tested and the payments cut out once the individual earns $150,000. *Continued over the page...*

Quote of the month

"Your present circumstances don't determine where you can go; they merely determine where you start."
Nido Qubein

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What does the new R&D tax credit offer you?

Australia has progressively fallen behind in the Global Innovation Index for the last few years. Last year alone, Australia slipped three places from 18 to 21 (Switzerland, Sweden and Singapore were the top performing countries).

Boosting innovation is a question that has plagued the Government for some time and the restructuring of the research and development incentives is an attempt to better target and encourage true innovation. For many years the criticism has been that R&D funding is too narrowly applied to make a difference and generally relates to product development rather than innovation – so, activities that a business would generally undertake rather than innovation. In addition, small business has been vastly underrepresented because in many cases the owners are simply unaware that what they are doing could qualify for the incentives available or because it appears complex and the amount of paperwork required to apply and sustain the funding may not be worth it. The irony is that in many cases SMEs are funding their own development whereas larger companies, that have a larger capacity to manage the cost of the risk of innovation, are capitalising on the concessions available.

The new R&D tax incentive tightens the definitions for R&D funding in an attempt to give the Government a bigger bang for its innovation buck, and provides additional incentives for businesses under $20 million.

For small companies with an aggregated turnover of less than $20 million, the R&D tax incentive provides a 45% tax offset for eligible R&D activities. The offset is refundable so the company will receive a cash refund even if they are in a tax loss position. Until 2014, the offset is processed through the company tax return. After 2014, small business will be able to access the R&D offset quarterly. So, for a small company with a turnover of say $4 million with eligible R&D expenditure in 2010/2011 of $500,000, the company would be entitled to a refundable tax offset of $225,000 when it lodges its tax return for the year.

For larger companies, a 40% offset is available for eligible R&D activities. The offset is non-refundable so if a company is in a tax loss position they will not be able to utilise the offset in that year but can carry forward unused offset amounts in future years.

Eligible R&D activities are now categorised as either ‘core’ or ‘supporting’ R&D activities. Core R&D activities are experimental activities where the outcome is unknown. The primary purpose of core activities is to create new knowledge (that might result in a product). Supporting R&D activities are activities that support core R&D activities. The test for supporting R&D activities is tighter than previous definitions and companies that currently claim R&D tax offsets will need to ensure that their activities still qualify.

The changes also expand access to the R&D tax credit to foreign companies that undertake R&D in Australia and to companies that hold their intellectual property offshore.

For small business in particular, the R&D tax incentive provides a way of funding investment that they often already make.

The R&D tax incentive applies from 1 July 2011. Companies wanting to access the incentive will need to register with Innovation Australia.

The restructuring of the R&D scheme has been in progress since 2009 before the enabling legislation was finally passed by both houses of Parliament last month.

Speak to us today about identifying whether or not your company can access the R&D tax credit.

Paid leave for Dads

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Paid parental leave for Dads was initially scheduled for 1 July 2011 then postponed during the global financial crisis.

The full details are yet to be finalised and the Government is seeking consultation into the scheme. You can find the details at http://www.fahcsia.gov.au.

Did you know?

This year alone, the Tax Office has stopped over 70,000 refund cheques worth an estimated $220 million.

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