



Tax Savings Made Easy

Small Business Pre-Tax Planning Strategies



BUSINESS SOLUTIONS

Contents

Chapters	Page
Legality, Ethics & the ATO	2
 A Note About Superannuation.....	3
Tax Deductions to Consider.....	4
 The Next Strategies.....	5
 Strategies for Managing Taxable Income.....	5
Strategies for Reducing Assessable Capital.....	6

"It is far better to pay taxes and stay focused on your business, than to waste your time, money and reputation fighting the tax department."

Legality, Ethics & the ATO

There is a grey area that lies between tax planning and tax avoidance, and the ATO has a great deal of discretion in deciding where these boundaries lie. No one wants to be on the wrong side of an argument with the ATO, so it is always best to do your tax planning with common sense and an understanding of current law.

Just because you have attended an "expert" tax presentation, does not mean that the advice is supported by the ATO. Be particularly careful of any offer that sounds "too good to be true". In our experience these offers invariably come unstuck.

Be aware that there are very serious penalties, including large fines and jail terms, for those who find themselves at the wrong end of an ATO ruling. "It is far better to pay taxes and stay focused on your business, than to waste your time, money and reputation fighting the tax department."

Use this eBook to start your pre 30 June planning, but check with your accountant before taking any action.

Disclaimer: This eBook was written prior to May 2018 budget. An update will be issued to anyone who downloads this eBook to advise of any changes to tax planning strategy that may result.

We don't condone reducing your income simply to pay less tax. However, there are strategies that can be used to increase your net wealth that also have the effect of reducing your taxable income. For example, contributing to superannuation is a good way to grow your wealth, and under certain circumstances also reduces your taxable income.

Bear in mind that adjustments you make this year may well affect next year. By deferring income into next year or pulling forward spending into this year, you will impact your tax position in 2018/19. The current federal government is committed to the ongoing reduction of company tax rates, so these strategies may be particularly beneficial this year. However, if your income is likely to increase markedly in the next year you may still be better off paying tax now, instead of pushing it into next year.

This eBook provides the most common and straightforward strategies that can be used by small business owners to manage their taxable income. If your business or personal investments are complex you should seek the advice of your accountant before making plans. We recommend that everyone consult an accountant before taking action on tax plans.

"...superannuation is an important way of securing your future that also happens to reduce your taxes..."

A Note About Superannuation

For self employed and small business owners, superannuation is an important way of securing your future that also happens to reduce your taxes. The very first strategy we recommend to our clients approaching 30 June is to invest as much as they can afford, and the tax department allows, into superannuation.

The maximum concessional contribution level for the 2017/18 year is \$25,000 for everyone (regardless of age).

For anyone earning less than \$51,813, the government makes superannuation contributions even more attractive by offering co-contributions.

We encourage you as a first step in tax planning to contribute as close to the maximum as you are able without jeopardising your cash flow. Make sure all superannuation payments have cleared the bank before 30 June.





Tax Deductions to Consider

One way to reduce your taxable income is to increase your tax deductions. We've listed below some areas that you should consider. Your business probably won't use all of these deductions but it pays to be aware of what the ATO allows.

Employee Super payment Superannuation payments cannot be deducted unless they have cleared your bank account prior to 30 June. Make sure all employee super payments are made early enough to ensure they have cleared before financial year-end.

Furthermore, if you do not pay your employees 2018 superannuation in full by 28 July, you cannot ever claim a deduction on the portion unpaid at that date. You will still be liable for the super, you just won't be able to deduct the expense.

"...do not put your cash flow at risk."

Write off bad debts If you account on an accrual basis, have debtors that are overdue by 12 months or more, have made every effort to receive payment from that debtor and believe you will not receive payment, you can reduce your taxable income by writing these sales off as bad debts.

Write off obsolete stock If you manage inventory then you will need to prepare a detailed Stock Take listing as at 30 June 2018. Review your listing and write off any obsolete or worthless stock.

Travel expenses If your business requires you to travel then you can legitimately claim expenses related to transport, accommodation and meals. You are generally required to keep written evidence of all expenses, but the tax department has defined [reasonable travel and meal allowances](#) that can be used where receipts are not available. The ATO ruling is very particular regarding the circumstances where receipts are not needed so we recommend that you speak to your accountant before relying on this ruling.

Start up costs New start-up businesses are able to immediately deduct all professional costs associated with starting a business. These include, legal, accounting and consulting fees.

"Make sure all employee super payments are made early enough to ensure they have cleared before financial year end."



The next strategies involve spending money in this tax year on goods or services to be used next year. Be extremely careful to ensure that your actions do not put your cash flow at risk.

Tools of Trade Items such as handheld portable tools, computer software, notebook computers, digital cameras, brief cases, protective clothing and mobile phones are classified as “tools of trade” so long as they can be shown to be necessary for work. This makes them FBT exempt and tax deductible. If you are planning to buy tools of trade in the near future and it doesn't jeopardise your cash flow, it's a good idea to purchase before 30 June. (Where tools of trade are used for both work and private purposes you will need to apportion the amount you claim.)



Prepay interest If you qualify for small business concessions, the ATO allows you to claim a tax deduction on interest expenses paid as much as 13 months ahead. If your lender agrees and you have the cash flow to fund it, you can prepay your loans to bring forward your tax deduction. You may even get a discount from your lender for pre-paying.

Prepaid Expenditure If you are classified as a small business*, you can prepay expenditures such as rent and deduct the full amount paid immediately. All business can deduct prepaid expenditures less than \$1000, payments required by law or court order and payments for salary or wages under a contract of service.

Asset depreciation If you are classified as a small business* then you can fully write off assets purchased in this fiscal year up to \$20,000. Be aware that, unless the government extends this perk in the May budget, after July 2018, you will only be able to instantly write off assets up to \$1,000. With assets over \$20,000, small businesses* can use the pooling method to write off 15% in the first year and 30% in subsequent years. In either case you will be growing the net wealth of your business and reducing taxable income by purchasing assets before year-end.

“If you are classified as a small business you can fully write off assets up to \$20,000”

Strategies for Managing Taxable Income

When employing strategies that involve deferring income or bringing forward expenses between tax years, always ensure you consider your decision from the perspective of both tax years. By reducing your taxable income this year, you will be increasing your taxable income for next year.

Note: that at the time of writing the 27.5% tax rate for entities with turnover under \$25m is not expected to change for 2019.

Defer Income It is possible to reduce taxable income by deferring issuing invoices or receiving cash payments until after 30 June. This really should only be used as a strategy for payments that fall very close to year-end and can legitimately be invoiced in either year, otherwise you may fall foul of the ATO and risk damaging your cash flow.

Defer disputed income If your business is operating on an accrual basis you are legally allowed to defer income that is subject to dispute until that dispute is settled.

Bring Forward Expenses You can reduce taxable income by bringing forward your expenses. This could be as simple as stocking up on stationery and computer suppliers, or consider strategies such as prepaying interest or expenditure or moving forward the purchase of assets as outlined in the strategies above. Always remain aware of the cash flow implications when prepaying.

Strategies for Reducing Assessable Capital

Make contract date for sale of capital after 30 June

In assessing tax owing on capital gains it is the contract date, not the settlement date, that matters. You can delay the realisation of capital gains by ensuring that the contract date of sale falls after 30 June. As with any income deferral strategy, it is important to consider the impact on next year's tax situation before finalising plans.

Be quick to realize capital losses Capital losses cannot be claimed as a direct tax deduction, but they can be carried forward indefinitely and subsequently used as an offset to future capital gains.

Strategies for Distributing Income

Depending upon your business structure and personal situation there are opportunities to manage the distribution of profits.

In a small family business it may be possible to pay family members through salaries, directors fees or fully franked dividends.

Where a discretionary trust structure is used you are able to choose how to distribute profits amongst nominated beneficiaries, which may include people or companies. But note that it is very important that you make these decisions prior to 30 June and have a signed Minute outlining the distribution decision; otherwise this will be construed as tax avoidance by the ATO. If you have your accountant undertake tax planning prior to 30 June, the Minute will be prepared at the time when strategy decisions are made.

Superannuation funds are taxed only at 15%. This rate is substantially lower than the 27.5% company tax rate for small business* (30% for businesses not covered by small business concessions). It is also lower than the marginal tax rate for any individual earning over \$18,200. Rather than keeping cash in your business, consider the option of contributing to your superannuation fund to plan for your future and take advantage of the 15% tax rate.

If you are self-employed and want to contribute to superannuation, ensure you complete the [Notice of Intent form](#).

*Most small business concession, including the reduced tax rate of 27.5% and fringe benefits tax (FBT) concessions, are now extended to business (including sole traders, partnerships, companies and trusts) with a turnover up to \$10million.

MJA Business Solutions supports businesses with sound advice and up to the minute information. For assistance with tax planning and business planning please [contact us](#). Our professional team would be happy to help.



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