

Hot tax tips to save you money

Tax is a cost of doing business but often people pay more than they need to. Managing your tax liability is about understanding the rules, following them, and taking advantage of all of the options that are available to you. Smart tax planning will always save you money. In the lead up to the end of the financial year, we take a look at the top tax tips for business owners and operators.

Income Splitting

People involved in family businesses should consider the income levels of all family members involved in the business when working out income levels. The rules vary depending on whether you trade through a partnership, company or trust, but each one provides choices as to how you distribute income. Where salaries are paid, there are rules in place to prevent artificial arrangements but there is still plenty of scope within this to take advantage of marginal tax rates. Where both the husband and wife are involved in the business, with some careful planning there is opportunity to fully utilise all of the lower tax marginal tax rates and combined with company rates you can both defer and plan for when you need to pay tax in excess of 30 cents in the dollar.

Review your asset register and scrap any obsolete plant

Review your asset register prior to the end of the financial year. You may have plant and equipment that has become obsolete and is sitting on your depreciation schedule being depreciated year by year. Why wait to take the tax deduction? Rather than a small amount each year, if the plant has become obsolete, scrap it and write it off before year end.

Valuing your trading stock

If you are in a business that has trading stock don't lock into one single approach to valuing that stock. Most business owners value their stock at cost but you have options. Tax legislation allows you to value your stock at either cost price, market selling price, or replacement value. Additional rules exist for obsolete stock. You don't have to value all of your stock using the same method and once you have adopted a particular method you don't have to stay with that method year in and year out. You can mix and match methods across your stock and you can change methods where appropriate. The higher the value of your trading stock, the higher your profits for the year. So if you can legitimately use a valuation method, other than cost price, which will reduce the value of your stock holding then you will lower your profits and in most cases your tax liability.

Write off your bad debts before year end

Before the end of each financial year you need to review your debtor's ledger and write off any bad debts. Leave it until 1 July and you will have to wait another year to be able to claim the deduction. Writing off a bad debt means that you have given up all hope and activity around recovering the debt. You will have physically written it off your debtor's ledger and charged the bad debt to your accounts. Depending on your normal operating procedures you may want to action a minute in the company records confirming the date when the bad debt was written off. Providing

you have written off the bad debt then you are entitled to claim it a tax deduction.

Superannuation

Each year, tax deductible superannuation contributions can be made up to the aged based limits. These range from \$13,934 to \$95,980 for employees over the age of 50. Self employed individuals can obtain a deduction for the first \$5,000 contributed plus 75% of the balance. Where the contribution is made by your employing company or trust it is entitled to a 100% deduction up to the aged based limits. If you are on maximum personal tax rates, then superannuation can be very tax effective. Contributions in excess of the minimum required for SGC purposes can be made at any time during the year. Top up contributions near the end of the financial year are often a popular tax planning device.

Exempt fringe benefits

If you are employed by your company or trust then you may want to consider providing yourself with some benefits through your company. This is a form of salary packaging. Often thought of as more of the domain of big business, salary packaging can work well for small and medium sized businesses. For example, you might want to package a lap top computer. It is classified as an exempt fringe benefit so there is no FBT exposure for the company and if you use it for business purposes then you will also be entitled to claim the depreciation in your personal return.

Timing your deductions and income

Near the end of the financial year you might have the opportunity to defer business income and accelerate some deductions. Particularly if you account on a cash basis, or are a service business, deferring income or accelerating an expense can make a significant tax difference. Moving income after 30 June or bringing expenditure forward from 1 July can change the tax effect by one year.

Using dividends or trust distributions

If you operate through a company or trust then you have some flexibility around the level of wages you draw. You may want to limit the amount you pay yourself in wages and instead earn the majority of your income through dividends or trust distributions. This approach has two advantages: the timing of your tax liability is better as the payment is always in arrears; on-costs on wages such as superannuation, payroll tax, workers compensation is limited. In some cases, where you are not paying yourself a commercial salary (assuming you work in the business) legislation is in place that will assess you for some taxes and charges on trust distributions. Nonetheless, real savings can be made through smart planning.

Making your life insurance tax deductible

Generally speaking life insurance is not tax deductible and where it is (in cases such as key man insurance) then if you claim the deduction, the proceeds paid on any claim may be assessable for tax purposes. If you are employed through your family company or trust then you may want to consider providing your life insurance through your superannuation fund. Your superannuation fund can take out the cover on your life as part of your superannuation scheme, you can nominate the beneficiaries and in most cases, the additional contributions made to the fund to cover the premium will be tax deductible where they are paid by your employer company or trust.

Family trusts and dependant children

Most family trusts are discretionary trusts. As the name implies the trustee has a discretion each year who to apply the income of the trust to. Typically, a family trust has a number of beneficiaries including many of the family members. These family members can include children. Where the children are less than 18 years of age they can receive up to \$416 per annum without being liable for tax. Where they are also eligible for the low income rebate - as most will be - then this tax free amount increases to \$772 per annum. If you have dependent children over 18 years of age then you are able to take advantage of the general marginal tax rates. You may already be maintaining these children and perhaps meeting costs such as university education. As beneficiaries of your family trust you may be able to cushion some of the cost outlays.

Offsetting capital gains with capital losses

If you have made any capital gains throughout the year, then after allowing for the various discounts and concessions available, there still may be some tax to pay. One strategy always worth considering is whether you can realise any capital losses in the same income year. Capital losses can only be offset against capital gains for tax purposes. You might have some assets or investments that have lost value from their original purchase price. If this is the case and you no longer wish to retain the asset or believe that it is unlikely that they will recover their original value then it might be worthwhile selling the asset and crystallising the loss in the same year as you have made a capital gain. The tax offset will at least cushion some of the impact of the loss.

Simplified Tax System

STS was introduced in 2001, yet recent statistics show that only 20% of taxpayers eligible to account under STS use it. Basic eligibility conditions are that you turn over less than \$1 million and have depreciable business assets less than \$3 million. STS allows you to account on a cash basis. This is a great option if you are a small business that has account customers and you are owed money. Even better if you don't have or only have a limited amount of creditors. This is often the case with service businesses. You can defer paying tax on sales until you have been paid. STS also has accelerated depreciation allowances and allows you to claim a tax deduction for prepayments of up to 12 months, made at year end. If you qualify, STS will generally save you tax or defer it to a future year.

If you have opted into STS, then you have the advantage of being able to take a tax deduction for any prepayments made before year end. These prepayments can be for up to 12 months and you can take an immediate deduction for the amount prepaid. This creates a timing advantage for you and can defer the tax until the following year. If you do have to pay tax then deferring the payment can be to your advantage.

These are just a few of the way that you can reduce the cost of tax to your business and yourself. To find out how to maximise your tax position, talk to us today.

Quote of the month

**I have not failed.
I've just found 10,000
ways that won't work.**
Thomas A. Edison