

2011/2012 Year-end Checklist for Business

Many of our business clients like to review their tax position at the end of the financial year and evaluate any year-end strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around two simple concepts – i.e., accelerating business deductions and deferring income.

However, Small Business Entities (SBEs) have greater access to year-end tax planning due to particular concessions that only apply to them. The SBE system replaced the previous Simplified Tax System ("STS") on 1 July 2007. Taxpayers that qualify as an SBE can pick and choose which of the concessions they wish to use each year (although restrictions still remain in relation to the SBE depreciation rules). The basic requirement to be eligible for the SBE concessions is that the business taxpayer's annual turnover (including that of some related entities) is less than \$2 million.

The following are a number of areas that may be considered for all business taxpayers.

Maximising deductions for non-SBE taxpayers

Non-SBE business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- Prepayment strategies;
- Accelerating expenditure; and
- Accrued expenditure.

Prepayment strategies – non-SBE

Any part of an expense prepayment relating to the period up to 30 June is generally deductible in full.

In addition, non-SBE taxpayers may generally claim the following prepayments in full:

- expenditure under \$1,000;
- salary and wages; or
- expenditure required to be incurred under law.

Editor: Prepayments can be a little confusing, so before you commit to making a payment please feel free to call us with any queries or assistance if required.

Accelerating expenditure – non-SBE

This is where a business taxpayer brings forward the expenditure on regular, on-going deductible items. However, business taxpayers are generally entitled to deductions on an "incurred basis".

Therefore, there is no requirement for the expense to be paid by 30 June 2012. As long as the expense has genuinely been incurred, it will generally be deductible.

Checklist

The following may act as a checklist of possible accelerated expenditure:

- Depreciating assets** costing \$100 or less can be written off in the year of purchase.
Depreciating assets costing less than \$1,000 can be allocated to a low value pool and depreciated at 18.75% (which is half of the full rate of 37.5%) in their first year regardless of the date of purchase.
- Repairs** – repairs to office premises, equipment, cars or other business items.
- Consumables/spare parts.**
- Client gifts.**
- Donations.**
- Advertising.**
- Fringe benefits** – any benefits to be provided, such as property benefits, could be purchased and provided prior to 1 July 2012.
- Superannuation** – contributions to a complying superannuation fund, to the extent contributions are actually made (i.e., they cannot be accrued but must be paid by 30 June).

Note that, since 1 July 2007, no limit applies to the amount of tax-deductible contributions an employer can make for an employee. However, an employee who receives employer contributions in excess of their own concessional contributions cap may have to pay more tax.

Accrued expenditure – non-SBE

Non-SBE taxpayers (and some SBE taxpayers) are entitled to a deduction for expenses incurred as at 30 June 2012, even if they have not yet been paid.

The following expenses may be accrued:

- ◆ **Salary or wages and bonuses** – the accrued expense for the days that employees have worked but have not been paid as at 30 June 2012.
- ◆ **Interest** – any accrued interest outstanding on a business loan that has not been paid as at 30 June 2012.
- ◆ **Commercial bills** – the discount applicable to the period up to 30 June, where the term of the bill extends past 30 June 2012.
- ◆ **Commissions** – where employees or other external parties are owed commission payments.
- ◆ **Fringe benefits tax** – if an FBT instalment is due for the June 2012 quarter, for example, but not payable until July, it can be accrued and claimed as a tax deduction in the 2012 income year.
- ◆ **Directors' fees** – where a company is definitively committed to the payment of a director's fee as at 30 June 2012, it can be claimed as a tax deduction.

Maximising deductions for SBE taxpayers

Deductions can be maximised for SBE business taxpayers by **accelerating expenditure** and **prepaying** deductible business expenses. Former STS taxpayers who have continued to use the STS cash method since before 1 July 2005 cannot accrue expenses, but other SBE taxpayers on an accruals basis *can* accrue expenses (see above for accruing expenditure).

Accelerating expenditure – SBE

Former STS taxpayers who have continued to use the STS cash method since before 1 July 2005 and who qualify as an SBE are generally only entitled to deductions if they have paid the amount by 30 June.

All SBE taxpayers can choose to write-off depreciable assets costing less than \$1,000 in the year of purchase. Also, assets costing \$1,000 or more with an effective life of less than 25 years can be depreciated at 15% (which is half the full rate of 30%) in their first year.

Therefore, where appropriate, SBE business taxpayers should consider purchasing/installing these items by 30 June 2012.

Note: From 1 July 2012, the threshold for the immediate write-off for SBE taxpayers will increase from \$1,000 to \$6,500, and the 25 year limit will be removed, meaning it may be worthwhile deferring the purchase of such assets until after 30 June.

Also, it should be noted that SBE taxpayers choosing to use the SBE depreciation rules are effectively 'locked in' to using those rules for all of their depreciable assets.

Prepayment strategies – SBE

SBE taxpayers making prepayments before 1 July 2012 can choose to claim a full deduction in the year of payment where they cover a period of no more than 12 months (ending before 1 July 2013). Otherwise, the prepayment rules are the same as for non-SBE taxpayers.

The kinds of expenses that may be prepaid include:

- Rent** on business premises or equipment.
- Lease payments** on business items such as cars and office equipment.
- Interest** – check with your financier to determine if it's possible to prepay up to 12 months interest in advance.
- Business trips.**
- Training courses** that run on or after 1 July 2012.
- Business subscriptions.**
- Cleaning.**

Information Required

We will need you to bring the following information to help us prepare your income tax return:

- Stocktake details as at 30 June.
- Debtors listing (including a list of bad debts written off) as at 30 June. *Note: In order to claim a deduction, the debt must be written off on or before 30 June.*
- Creditors listing as at 30 June.