

Year end tax planning

There are a number of ways to tax plan and legally reduce your tax liabilities, besides effective structuring, advance consideration of transactions, budget tax payments, year-end tax planning for small business owners is essentially the use of legitimate strategies to accelerate deductions and to defer the recognition of income.

Defer income

Defer receipt of income assessed on a cash basis and defer derivation of income assessed on an accruals basis.

Accelerate deductions

Realize losses by scrapping obsolete or unusable plant before year end. Revalue trading stock downwards to the lower of cost, replacement price, or market selling value.

Trading stock

Trading stock on hand can be valued at the lower of cost, replacement price, or market selling value.

Prior to year end any stock that is either of reduced value, obsolete or damaged should be identified and valued accordingly. Alternatively, stock of no value should be scrapped.

Simplified trading stock rules where businesses only need to conduct stocktakes and account for changes in the value of trading stock in limited circumstances.

Bad Debts

Review all debts in existence prior to year end. Write off debts that have gone bad in the books of the company by 30 June. Where your businesses operate on a non-cash basis and have previously included the amount in assessable income, a deduction for a bad debt can be claimed so long as the debt is declared bad by June 30.

The business will need to show that it has made a genuine attempt to recover the debt by year end to prove that the debt is bad. It's important that this decision is made in writing (e.g. a board minute).

Note the business can claim back the GST paid on debts that have been written off as bad.

Directors' Fees

Deductions for directors' fees, bonuses or similar payments are allowable only when the company makes a firm commitment to pay the fees, ie. by passing an authorized resolution. Therefore, in order to claim directors' fees it is not sufficient for tax purposes to determine the fees and pay them in the following income year.

Blackhole Expenditure

Review expenditure to ensure that any blackhole expenditure is identified. This applies to business capital expenditure that is not otherwise taken into account and which may qualify to be written off over five years.

Prepayment

Small businesses registered for Simplified Tax System can claim an immediate and without limit deduction for prepayments that

extend into the following income year provided that the eligible service period does not exceed 12 months and ends no later than June 30 the next year. Subject to cash flow requirements, the most common expenses that an STS small business should consider prepaying by June 30, include lease payments, rent, business travel, insurances, business subscriptions, etc.

Non STS small businesses may be able to claim a deduction for certain prepayments costing less than \$1,000 GST exclusive. (e.g. Workcover premiums and motor vehicle registration).

Capital gain tax

Realize unavoidable capital losses to offset any capital gains.

Defer the realisation of a capital gain until after 30 June, if possible, or if already realised, consider realising a capital loss now in order to reduce a taxable capital gain. Consider other CGT minimization strategies such as:

- Availability of small business and retirement concessions.
- Defer a disposal to ensure the asset has been held for at least 12 months. This will potentially allow individuals and trusts to benefit from the 50% discount.
- Review the cost base of an asset to ensure all expenditure available under the definition is included.