

Year-end tax tips – Small Business

As the 2009 financial year draws to a close, it is timely for individuals and small businesses to consider the following year-end tax tips:

COMPANY LOANS

It is important to ensure that private company loans that extend beyond the end of the income year are properly documented, to ensure that a tax liability is not triggered under the tax rules set out under Division 7A.

Adequate annual repayments of a properly documented loan are also required. It should also be noted that taxpayers with prior year loan or other exposures under Division 7A which arose between 2002 and 2007 have until 30 June 2008 to take corrective action put such transactions on a Division 7A compliant basis where the exposure arose due to an honest mistake or inadvertent omission.

Where such action is taken by year end the Tax Office will not treat the prior year exposure as a deemed dividend under Division 7A. Further details on such corrective action are set out in Practice Statement PS LA 2007/20 on www.ato.gov.au

CAN I JUST MAKE AN ESTIMATE OF MY STOCK?

It is not sufficient to simply make an estimate of your stock, or to take a guess. Each year you need to include a value in your accounts of stock in hand and work-in-progress at 30 June. Closing stock can be valued at cost, replacement or market value or less if obsolete, but you have to document which method you use.

WHY SHOULD I REVIEW MY ASSETS?

It's too easy to carry assets on your books that have no real value, are obsolete or have been scrapped. The only way to get a write-off deduction for them is to review your asset register and take the necessary action before 30 June. The asset register is the list you should be keeping of all plant, equipment, furniture, fittings and any other assets, including all items bought, sold and disposed of during the year.

NON-COMMERCIAL LOSSES

For a business to be commercial under these rules, it needs to meet certain prescribed tests. If the tests are not met, any losses arising from the activities will have been carried forward and offset in a later year, against future income of the same type or source.

PERSONAL SERVICES INCOME (PSI)

The PSI measures are designed to limit the level of deductions available to certain contractors, whether they are operating as a sole trader or through a company, trust or partnership, and to also extend the PAYG withholding rules in such cases.

A taxpayer that meets certain special tests such as the 'results' test will be treated as carrying on a personal services business and will be able to claim a wider range of deductions. But such taxpayers need to be aware of the Tax Office's strict approach to income retention and income splitting (with some exceptions such as for standard 'mum and dad' partnerships).

BAD DEBTS

If you want to claim for bad debts, remember that they must be bad and written off before the end of the financial year. To do this, the debt must generally have been brought to account as assessable income and you must have given up all hope, and more importantly, all action for recovery. Bad debts cannot be claimed by taxpayers who recognize income on a cash basis.

SALARY PACKAGING AND FRINGE BENEFITS

This can be a useful way to obtain some tax savings, particularly if you are on the top marginal tax rate and your employer offers it. Some of the most common and tax-effective items to consider include superannuation, laptop computers and motor vehicles. Employees should ensure that an effective salary sacrifice arrangement foregoing salary or a bonus for fringe benefits or additional superannuation contributions are entered into before the applicable salary or bonus had been earned. Note that your employer will include the reportable fringe benefit amount on your payment summary, which must be included in your tax return. This may impact on your liability for the Medicare levy and entitlement to certain benefits. Business owners should note that fringe benefits tax (FBT) may be applicable to entertainment expenses (from business lunches to tickets for sporting events), company motor vehicles, some directors' loans or a range of other benefits received by employees and directors.