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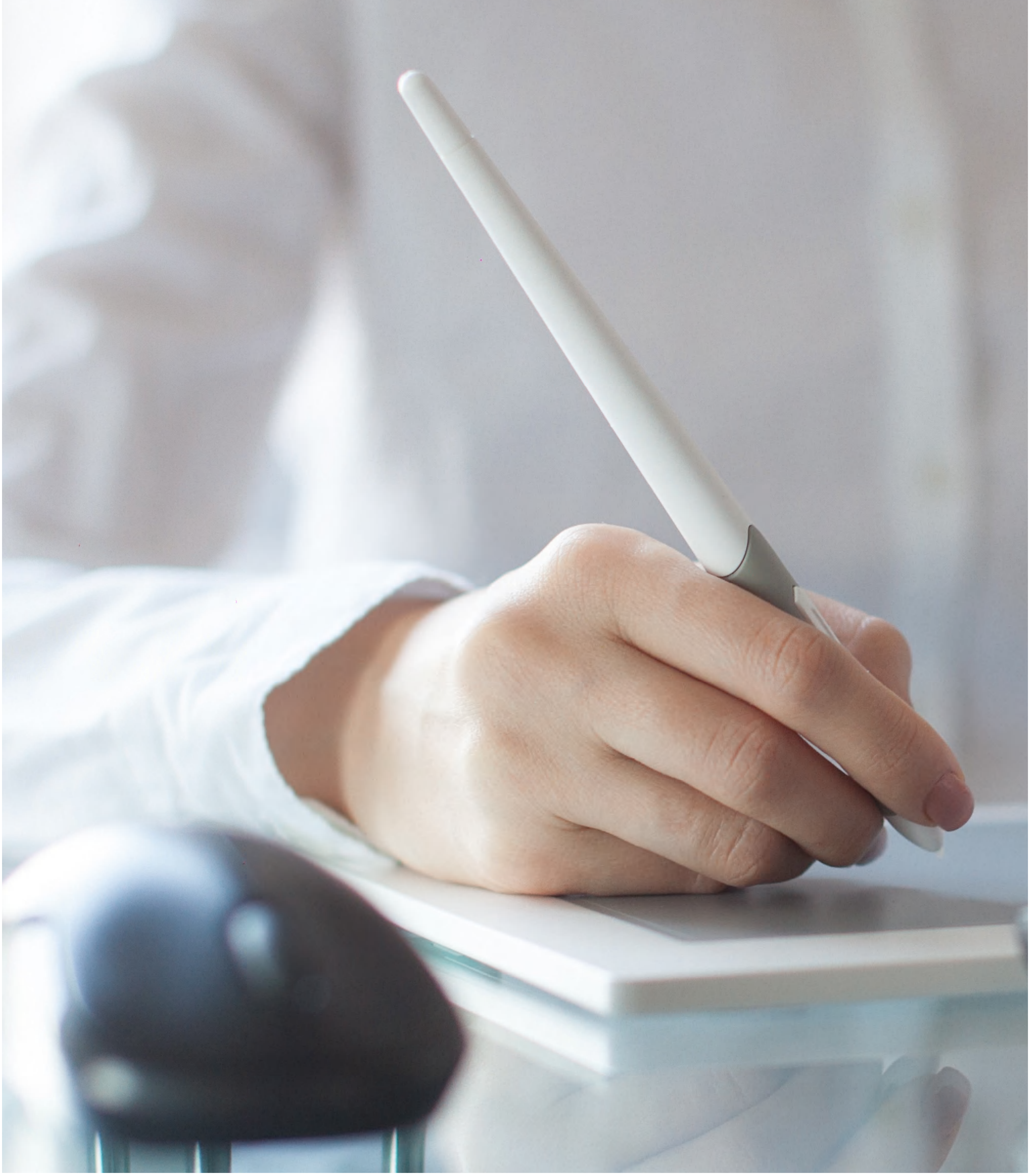
Better Business Guide

# Year End Tax Planner



# Year End Tax Planning

The end of the financial year approaches so quickly each year. As you know, legitimate tax minimisation for the year can often be achieved by taking specific actions prior to 30 June. We've prepared a list of some of the issues you may wish to consider. Remember that in order to maximise the benefits for the current year, it is helpful to prepare a preliminary assessment of your taxable income for the year to date so you can see whether or not there is an issue to fix. Review all deductible expenses and assessable income in the latest available figures to determine the prospects for pre-payment, deferral or other action.

### Income received in advance

Have you performed all the services you billed the customer for? If no, you may be able to record a provision on the balance sheet for this unearned income which will reduce your taxable income for the year. Interest income, dividends and rent are considered taxable once received.

### Timing of expenses

In certain circumstances expenses paid for before they are due will be tax deductible when they are paid, e.g. insurance premiums, membership of organisations, travel, advertising and interest. To claim a deduction for the 2013/2014 financial year consider paying for any required repairs, replenishing consumable supplies, trade gifts or donations before 30 June.

### Trading stock

Closing stock can be valued at year end at the lesser of cost, market value or replacement value. Obsolete items can be written off or written down to their correct market value.

### Asset register

Review your asset register and check to see if obsolete plant and equipment is sitting on your depreciation schedule. Rather than depreciating a small amount each year, if the plant has become obsolete, scrap it and write it off before 30 June. Small Business Entities can choose to pool their assets and claim one deduction for each pool. This means you only have to do one calculation for the pool rather than for each asset.

### Bad debts

Review your Trade Debtors listing and write off all Bad Debts before 30 June. Prepare a Minute of a Directors' Meeting listing each Bad Debt as evidence that these amounts were actually written off prior to year end.

### Depreciation

If your business is a Small Business Entity (turnover less than $2 million), then from 1 January 2014 the following tax concessions apply:

- Depreciating assets (including motor vehicles) valued at less than $1,000 will be immediately deductible.
- Depreciating assets valued at more than $1,000 will be depreciated in one pool at a rate of 15% in the first year and 30% in future years.

### Company loans - Div 7A

Has your company lent money to you or an associated entity this year or in a prior year? If yes, there are tax consequences of this loan which will affect your taxable income for year. These loans are called Division 7A loans by the ATO and they require interest to be charged and a minimum repayment made each year.
What does this mean for the company? Additional income (being interest on money that was lent) must be declared in the company's name.
What does this mean for the borrower? If a cash repayment is not made, the repayment will often be covered by declaring a dividend or directors fees. This means additional income to the borrower.

### Rental properties

Maximise your deductions e.g. quantity surveyor depreciation report, prepaid interest, repairs and maintenance.

### Directors' fees and bonuses

Declare them before 30 June and providing the company is absolutely committed to them, you are entitled to the deduction even if they have not been paid. Again, a Director's Minute is a good idea.

### Super contributions

While SGC obligations are not due until 28 July, superannuation is only deductible once paid. Consider paying these for your employees prior to 30 June. Also talk to your financial planner about utilising the maximum contributions limits for yourself.
What are your contribution limits? For those under 49 years old at 30 June 2014, the limit is $30,000. For those aged 49 years and over at 30 June 2014 the contribution limit is $35,000.

### Management fees

Where management fees are charged between related entities, make sure that the charges have been raised by 30 June. They must be commercially reasonable and documentation must be in place to support the transactions. This is an area under increased scrutiny.

### Talk to your accountant

Speak to your accountant so they can assist in identifying tax minimisation strategies tailored to your personal situation.

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# Year End Accounting Checklist

## Employees

☐ Has superannuation been calculated correctly and has it been paid on time? Superannuation is payable at a rate of 9.5% on ordinary time earnings (OTE). OTE is the salary or wage an employee earns for their ordinary hours of work.

☐ Has the correct PAYG Withholding been withheld on all earnings? Does the W1 and W2 on your BAS equal the amounts on your PAYG Payment Summary Statements? Are all allowance and lump sum payments account for correctly on the PAYG Payment Summaries?

☐ Are your staff true employees or are they contractors? What is the difference?

Engaging contractors and employees imposes different rules and obligations onto your business, and getting it wrong could be a costly mistake. If you've previously engaged a worker without being certain whether the arrangement is employment or contracting, you should review their agreement now to make sure you got it right.

☐ Do you have employees in other states besides Queensland? If yes:

Have you accounted for WorkCover in each state for interstate employees?

Have you accounted for payroll tax in each state for interstate employees? There are different thresholds in all states for payroll tax as per below. You also need to account for Australian wide wages which means your Queensland payroll tax threshold may not be $1.1m.

| | Rate (%) | Annual wages threshold ($) |
|---|---|---|
| **New South Wales** | 5.45 | 750,000 |
| **Victoria** | 4.90 | 550,000 |
| **Queensland** | 4.75 | 1,100,000 |
| **South Australia** | 4.95 | 600,000 |
| **Western Australia** | 5.50 | 750,000 |

## Fringe Benefits Tax

☐ Do you provide any benefits to your employees or associates such as cars, meals, parties or gifts?

Fringe Benefits Tax or FBT is a tax paid on certain benefits provided to employees or an associate of an employee. It is separate from income tax and is based on the taxable value of the various fringe benefits provided by your employer.

The FBT year runs from 1 April to 31 March as opposed to the financial year which runs from 1 July to 30 June.

## Capital Gains Tax

☐ Have you sold any assets during the year? For CGT purposes the contract date is used for calculating any tax consequences.

☐ Have you bought any assets during the year? Again, it is the contract date which is used for tax purposes.

## Luxury Cars

☐ Have you recorded the correct GST on your luxury car (luxury car limit $57,466)?

☐ Have you sold a vehicle that was classified for tax purposes as a luxury car and recorded the GST correctly?

## Research & Development

☐ Have you undertaken any Research & Development expenses? If so, tax concessions may be available.

# Year End Accounting Checklist

## Fuel Tax Credits

☐ Are you eligible to claim back a credit for diesel fuel purchases?

Fuel tax credits provide businesses with a credit for the fuel tax (excise or customs duty) included in the price of fuel they use in machinery, plant equipment and heavy vehicles for business purposes. Most business can claim fuel tax credits—it's just the rate that varies depending on what fuel is used and how you use it.

Do you use fuel in your business (eg in machinery, plant, equipment or vehicles)?
NO → You are not eligible for fuel tax credits.
YES ↓

Is your fuel **only** used in light vehicles of 4.5 tonnes GVM or less travelling on a public road?
YES → You are not eligible for fuel tax credits.
NO ↓

Do you use the following fuels in your business?
- diesel
- petrol
- gaseous fuels (LPG, CNG, LNG)
- kerosene
- heating oil
- toluene
- fuel oil
- industrial solvents

NO → Aviation fuels and some alternative fuels are not eligible for fuel tax credits.
YES ↓

You may be entitled to claim fuel tax credits.

## GST

☐ Does your G1 equal the Total Sales in your Profit and Loss Statement + GST for the year?

This is an audit risk that the ATO monitors.

☐ Does your Annual GST Report equal what has been lodged for the year and therefore the balance of your GST account on your Balance Sheet?

## Capital vs Repairs & Maintenance

☐ Have you recorded these items correctly? Is it really a repair?

# For further information:

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