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Year End Tax Planning For SME's

Tax planning strategies differ for SME's deemed to be a "small business entity" under the Tax Act. Common strategies that should be considered prior to 30 June 2011 include:

Small business entity (SBE) tax concessions

The "small business entity" (SBE) tax rules provide access to a range of concessions that businesses can apply without the need to make a formal election in the tax return. A business can choose which one or all of the concessions to apply.

In order to be an SBE, the turnover of the business, including connected entities and affiliates, has to be less than $2 million GST exclusive.

The major tax planning concessions that are available under the SBE rules are:

- Adopting the simplified depreciation rules whereby an immediate deduction can be claimed for assets costing less than $1,000 **GST exclusive.** Depreciable assets costing $1,000 or more **GST exclusive** are included in an asset pool whereby a depreciation deduction of 15% (30% thereafter) can be claimed for 2011 where the asset has an effective life of less than 25 years regardless of when the asset was acquired during the income year. **Small businesses who adopt these concessions are "locked in" for all assets acquired in the future meaning that assets sold or scrapped cannot be written off and instead remain in the pool until fully depreciated**;
- Claiming an immediate deduction for certain prepaid business expenses where the payment covers a period of 12 months or less that ends in the next income year. The most common expenses that an SBE taxpayer should consider prepaying by 30 June 2011 include lease payments, interest, rent, business travel, insurances, business subscriptions, etc;

Deferring income & capital gains tax

- Businesses that return income on a cash basis are assessed on income as it is received. A simple end of year tax planning strategy is to delay "receipt" of the income until after 30 June 2011.
- Businesses that return income on a non-cash basis are generally assessed on income as it is derived or invoiced. Income may be deferred in some circumstances by delaying the "issuing of invoices" until after 30 June 2011.
- Realising a capital gain after 30 June 2011 will defer tax on the gain by 12 months and can also be an effective strategy to access the 50% general discount which requires the asset to be held for at least 12 months. The date of the contract is the realisation date for capital gains tax purposes.

Trust distributions to minors

For the 2010/11 year, minors (i.e. children under the age of 18 at 30 June) can receive investment income (including trust distributions) of up to $3,333 without paying tax due to the low income tax offset.

However, as announced in the recent Federal budget, minors will no longer be able to access the low income tax offset from 1 July 2011. This is designed to discourage income splitting between adults and children especially distributions to minors from family trusts.

It is likely that the previous tax free threshold of $416 for unearned income of minors will apply from 1 July 2011 making it less tax effective to distribute trust income to minors.

Tools of trade/FBT exempt items

The purchase of tools of trade and other FBT exempt items for employees (including business owners employed by the business) can result in an immediate tax deduction. Items that can be packaged include handheld/portable tools of trade, notebook computers, personal electronic organisers, mobile phones, digital cameras, briefcases, protective clothing, and computer software.

If structured correctly, the business will be entitled to a full tax deduction for the cost of the item and the employee's salary package will only be reduced by the GST exclusive cost.

Trading stock valuation

Both SBE and non-SBE taxpayers have the option of valuing trading stock on 30 June 2011 at the lower of actual cost, replacement cost, or market selling value. Furthermore, this valuation can be applied to each item of trading stock.

For example, where the market selling price of stock items at year-end is below the actual cost price, the taxpayer can generate a tax deduction by simply valuing the stock at market selling value for tax purposes.

In situations where stock has become obsolete at year-end (e.g. fashion clothing), the business may elect to adopt a lower value than actual cost, replacement cost, or market selling value.

Maximising depreciation claims for non-SBE businesses

- An immediate deduction can be claimed for assets costing less than $100 **GST inclusive** (e.g. minor tools).
- A tax deduction can be claimed for depreciable assets that are scrapped or sold for less than their written down value.
- Assets costing less than $1,000 **GST exclusive** can be allocated to a "low value pool" and depreciation claimed of 18.75% for 2011 (37.5% thereafter) regardless of when the assets were acquired during the income year.

Claiming deductions for expenses not paid at year end

Both SBE and non-SBE taxpayers are entitled to an immediate deduction for certain expenses that have been "incurred" but not been paid by 30 June 2011 including:

Salary and Wages. A tax deduction can be claimed for the number of days that employees have worked up to 30 June 2011, but have not been paid until the new financial year.
Directors Fees. A company can claim a tax deduction for directors fees it is "definitely committed" to at 30 June 2011 and has passed an appropriate resolution to approve the payment. The director is not required to include the fees in their taxation return until the 2011 year when the amount is actually received.
Staff Bonuses and Commissions. A business can claim a tax deduction for staff bonuses and commissions that are owed and unpaid at 30 June 2011 where it is "definitely committed" to the expense.
Repairs and Maintenance. A deduction can be claimed for repairs undertaken and billed by 30 June 2011 but not paid until the next income year.

Writing off bad debts

Where a business accounts for income on a non-cash basis and has previously included the amount in assessable income, a deduction for a bad debt can be claimed in 2010/11 so long as the debt is declared bad by 30 June 2011.

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 preferable that this decision is made in writing (e.g. a board minute).

Businesses can also claim back the GST paid on debts that have been written off as bad, or where not written off as bad, the debt has been outstanding for 12 months or more.

Concessional superannuation caps

The concessional superannuation caps for the 2010/11 year are as follows:

Person aged below 50 years of age at 30 June 2011:	$25,000
Person aged 50 and over at 30 June 2011:	$50,000

Note that employer super guarantee contributions are included in these thresholds. Where a concessional contribution is made which exceeds these amounts, the excess is taxed to the fund member's account at an effective rate of 46.5%.

The above contribution caps apply equally to self-employed taxpayers who can claim a 100% deduction where they satisfy the 10% test.

In order to obtain a deduction in the 2011 financial year, the contribution must to be received by the superannuation fund by 30 June 2011.

Reviewing the operating structure

The operating structure of the business should be regularly reviewed for both asset protection and tax minimisation purposes.

In order to access the small business capital gains tax concessions (SBC) upon the sale of a business and potentially pay no tax, the taxpayer needs to hold at least a 20% interest in the business.

Importantly, where the business assets (e.g. business premises) are held by a separate individual/entity and leased to the business, that individual/entity needs to be a "connected entity" and/or an "affiliate" before the SBC's can be accessed on sale of the building.

Some restructuring of the business may be required to ensure that the SBC can be claimed in the future.