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e review
INTELLIGENT ACCOUNTING

Are you paying more tax than you need to?

What can you do to reduce your tax and the tax paid by your business? The answer is quite a bit but it takes planning pre 30 June. Here are my top tips.

Timing is everything

Accelerate deductions

For businesses, if your cashflow is good, make the purchases you need before the end of the financial year to claim the deduction, particularly those with turnover under $10 million. The $20,000 immediate deduction for small businesses is scheduled to reduce back to $1,000 on 30 June (although the Government has proposed in the Budget to extend this by another year to 30 June 2018).

For individuals, it's a good time for charitable giving.

Delay income - One off opportunity for high-income earners

Taxpayers with assessable income above $180,000 face an additional 2% tax on every dollar above this level. The 2% 'debt tax' is scheduled to end on 30 June. The difference in timing between the reduction in the FBT rate that occurred on 1 April 2017 and the removal of the 2% tax on 1 July offers a one-off opportunity to reduce your taxable income through salary packaging and other planning initiatives.

If you are likely to have a one off spike in income, for example from the sale of a business or other significant assets, it's worth seeing if you can delay the sale until 1 July 2017 to avoid paying an additional 2% tax. Just be aware of how the arrangement is structured. In many cases the sale is treated as having taken place for tax purposes when the parties enter into the contract, even if settlement occurs at a later point in time.

Money or debts owed to private companies

It's common for business owners to take cash out of their business or for the business to fund some personal expenses through the year – these appear in the shareholder loan account. If this has occurred, it is important that these debts are either repaid by 30 June (you can declare dividends to pay any outstanding shareholder loan accounts) or a formal loan agreement (with specific conditions) is put in place. Without taking action, the ATO will treat any outstanding amount as a deemed dividend taxable in the hands of the shareholder at their marginal tax rate.

House-keeping for business

- For companies, directors' fees and employee bonuses may be deductible for the 2016-17 financial year if the directors pass a properly authorised resolution to make the payment by year-end (payment should be made as soon as practicable).

  Just be aware of the 2% debt tax for high income earners (see Delay income - One off opportunity for high-income earners)
- For Trusts, it is essential that decisions to distribute pre 30 June income are documented in writing.
- Write-off bad debts
- Review your asset register and scrap any obsolete plant
- Bring forward repairs, consumables, trade gifts or donations
- Pay June quarter employee super contributions now if cashflow allows
- Realise any capital losses and reduce gains
- Raise inter-entity management fees by June 30.

"Everybody will tell you they don't want to pay more tax than they need to, and yet it always amazes me how many people don't plan before year-end to maximise any opportunities they might have available to them to legitimately reduce their tax. And because tax rules change, often a missed opportunity is a lost opportunity. Now is the time to talk with your tax advisor to ensure you maximise your opportunities to reduce tax for the year."

JULIAN NICHOLS