

2005/2006 Year-end Checklist for Business

Many of our business clients like to review their tax position at the end of the financial year and evaluate any year-end strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around two simple concepts - i. e., accelerating business deductions and deferring income.

However, the ground rules changed forever when the Simplified Tax System ("STS") was introduced in the 2002 income year. Since then, businesses that elect to enter the STS are no longer determining their taxable income in the same way as they have done in the past.

In some instances, STS taxpayers will have greater access to year-end tax planning due to particular concessions that only apply to them. In other instances, non-STS taxpayers may be better off. The following are a number of areas that may be considered.

Maximising deductions for non-STS taxpayers

Non-STS business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- Prepayment strategies.
- Accelerating expenditure.
- Accrued expenditure.

Prepayment strategies - non-STS

Any part of the prepayment relating to the period up to 30 June is deductible in full.

In addition, non-STS taxpayers may claim the following prepayments in full:

- expenditure under \$1,000;
- salary and wages; or
- expenditure required to be incurred under law.

Editor: Prepayments can be a little confusing, so before you commit to making a payment please feel free to call us with any queries or assistance if required.

Accelerating expenditure - non-STS

This is where a business taxpayer brings forward the expenditure on regular, on-going deductible items. Non-STS taxpayers are entitled to deductions on an "incurred basis".

Therefore, there is no requirement for the expense to be paid by 30 June 2006. As long as the expense has genuinely been incurred, it will be deductible.

Checklist

The following may act as a checklist of possible accelerated expenditure:

- ▲ **Depreciating assets** costing \$100 or less can be written off in the year of purchase.

Depreciating assets costing less than \$1,000 can be allocated to a low value pool and depreciated at 18.75% (which is half of the full rate of 37.5%) in their first year regardless of the date of purchase.

- ▲ **Repairs**-repairs to office premises, equipment, cars or other business items.
- ▲ **Consumables/spare parts.**
- ▲ **Client gifts.**

- ▲ **Donations.**
- ▲ **Advertising.**
- ▲ **Fringe benefits** - any benefits to be provided, such as property benefits, could be purchased and provided prior to 30 June 2006.
- ▲ Superannuation-contributions to a complying superannuation fund, upto the employee's age based limit. However, deductions can only be claimed to the extent contributions are actually made (i. e., they cannot be accrued).

Age of employee in years	Deduction Limit
Under 35	\$ 14,603
35 to 49	40,560
50 and over	100,587

Accrued expenditure - non-STS

Non-STS taxpayers are still entitled to a deduction for expenses incurred as at 30 June 2006, even if they have not yet been paid.

The following expenses may be accrued:

- ▶ **Salary or wages and bonuses** - the accrued expense for the days that employees have worked but have not been paid as at 30 June 2006.
- ▶ **Interest** - any accrued interest outstanding on a business loan that has not been paid as at 30 June 2006.
- ▶ **Commercial bills** - the discount applicable to the period up to 30 June, where the term of the bill extends past 30 June 2006.
- ▶ **Commissions** - where employees or other external parties are owed commission payments.
- ▶ **Fringe benefits tax** - if an FBT instalment is due for the June 2006 quarter for example, it can be accrued and claimed as a tax deduction in the 2006 income year.
- ▶ **Directors' fees** - where a company is definitively committed to the payment of a director's fee as at 30 June 2006, it can be claimed as a tax deduction.

Maximising deductions for STS taxpayers

Deductions can be maximised for STS business taxpayers by **accelerating expenditure** and **prepaying** deductible business expenses. STS taxpayers accounting for tax on cash basis cannot accrue expenses, but STS taxpayers on an accruals basis can also now accrue expenses.

Accelerating expenditure - STS

Where STS taxpayers account on a cash basis*, they are generally only entitled to deductions (i. e., a deduction can only be accelerated) if they have paid the amount by 30 June 2006.

This covers the following expenditures:

- general deductions;
- tax-related expenses; and
- repairs.

STS taxpayers can write-off depreciable assets costing less than \$1,000 in the year of purchase. Also, assets costing \$1,000 or more with an effective life of less than 25 years can be depreciated at 15% (which is half the full rate of 30%) in their first year.

Therefore, where appropriate, STS business taxpayers should consider purchasing these items by 30 June 2006.

* STS taxpayers have been able to use an accruals basis since 1 July 2005.

Prepayment strategies - STS

Prepayments made before 1 July 2006 will generally be fully deductible in the year they are paid where they cover a period of no more than 12 months (ending before 1 July 2007).

The kinds of expenses that may be prepaid include:

- Rent** on business premises or equipment.
- Lease payments** on business items such as cars and office equipment.
- Interest** - check with your financier to determine if it's possible to prepay up to 12 months interest in advance.
- Business trips.**
- Training courses** - consider booking and prepaying courses that run on or after 1 July 2006.
- Business subscriptions.**
- Cleaning.**

Information Required

We will need you to bring information to assist us in preparing your income tax return:

- Stocktake details as at 30 June.
- Debtors listing (including a list of bad debts written off) as at 30 June.
Note: In order to claim a deduction, the debt must be written off on or before 30 June.
- Creditors listing as at 30 June.