

Business Tax Guide

2023 Edition

BUSINESS TAX

Overview.

When operating a business, you have a lot of responsibilities to be aware of including your tax, your employees Pay As You Go Tax, employee Super, GST and more.

The tax implications of your business structure must be considered, timing and amount of tax deductions, taxable income and the records that you need to keep.

While paying bills on time is always a primary concern, most businesses are unaware of the tax savings that can result from bringing forward the payment of certain expenses.

Let's look at the most overlooked deductions that can accelerate your cashflow by postponing your tax liability.





Superannuation

Most businesses have payroll software that enables posting payroll expenses into the general ledger by the click of a button. Employees are paid their net wage, but the superannuation contributions may be left in an unpaid superannuation account until the end of the month or quarter.

While most expenses are eligible for deduction when incurred, superannuation is only deductible when it is paid and received, on time, by a complying superannuation fund.

Superannuation contributions need to be received by the fund by the 28th day of each quarter (with significant penalties for late payment). The June quarter superannuation liability is only due by 28 July and is often not paid before year end. However, by paying the June quarter liability before 30 June the amount is deductible in the year it is paid should the fund receive the amount by 30 June.

Temporary Full Expensing

Under this provision that came into effect in October 2020, businesses can:

- Immediately write off the cost of each eligible asset
- Claim a tax deduction for the business portion of the purchase cost in the year the asset is first used or installed ready for use.
- It can be used for both new and second-hand assets where the business turnover is under \$50 Mil.
- Some exclusions and limits apply.

In the Federal Budget 2022/23 handed down 29 March 2022, the Government extended the Instant Asset Write off deduction ONLY to 30 June 2023.



Bad Debts



If you have a non-paying customer and you have made a genuine effort recovery of the debt, then some or all of the debt can be deducted in the current tax year provided it is written off before year end and was included as income at an earlier time. It is important to substantiate the reasons behind writing-off the debt prior to year-end.

Keep in mind that you may be entitled to a reduction in GST for the bad debt written-off. If you are registered for GST on accruals basis, and have included the forgiven amount in a prior period Business Activity Statement, you are entitled to adjust down the GST payable in the period that you write-off the bad debt.



Stock

Revalue Stock

The ATO allows a business to value its closing stock at any of the following values:

- Replacement value
- Cost
- Market selling value

Depending on the stock valuation under these three methods a business can obtain a significant reduction in its tax liability by adopting a method that results in the lowest value.

In certain circumstances, a taxpayer may also be entitled to a deduction for a write-down of obsolete stock where appropriate valuations and measures are taken.



Dispose of Obsolete Plant & Equipment

Businesses should review their fixed asset registers to ensure that they are not holding plant or equipment that they no longer require due to obsolescence. Even checking for assets that your business no longer holds could save you at tax time.

Depending on the written down value of the assets, a deduction can be claimed should the asset be 'scrapped' or disposed of prior to year-end.

Pre-pay Annual Charges

Review any of your expenditure that is eligible for a discount if paid for the next year.

Not only can you take advantage of this saving but depending on the expenditure, it can also result in an immediate tax deduction.

Small businesses are eligible to deduct any prepayment that has a service period of less than 12 months and all businesses can deduct prepayments that are either required under a Government law or cost less than \$1,000.

Start Up Costs

If you started your small business during the current year (or will do before year end), the costs associated with starting the business will be deductible (e.g. accounting fees, legal costs, company incorporation costs and trust deed costs).



Staff Bonuses

It is common practice for a business to create a provision for payment of staff bonuses. However, a tax deduction is only available for staff bonuses to the extent that the business is 'definitively committed' to paying the bonus.

Therefore, a business looking to claim a deduction for current year bonuses should keep appropriate documentation to support approval of those bonuses prior to year-end or pay them before June 30.

Division 7A Loans

If you are a shareholder or a shareholder's associate and you borrowed money from a company during the financial year, these loans need to be repaid or placed on a complying loan agreement by the lodgment due date of the company tax return.

If not, there is a risk that the loan will potentially be treated as a deemed unfranked dividend and taxed in the shareholder/shareholder's associate hands at very high rates of tax on the entire loan amount!

In respect to existing Division 7A loans, please ensure the minimum annual loan repayment is received by the company prior to 30 June. We have strategies in place for our clients, but new clients may need to address this. If you have concerns please contact our office.

When deciding to distribute income from a Trust to a Company during the 2021 financial year to benefit from a lower company tax rate, ensure you have considered Division 7A consequences.

Where a Trust distributes income to a Company, the Unpaid Present Entitlement (UPE) may result in a deemed dividend if the UPE is not repaid by the lodgment due date of the Trust's Income Tax Return or placed on a complying Division 7A loan agreement or SubTrust Agreement.



Trusts



Ensure you speak to your tax advisor to ensure your trust distribution resolutions are in place by 30 June.

Be aware that if you are planning to distribute to any new beneficiaries (e.g adult children, corporate beneficiaries) for the current financial year or beyond you need to ensure a Tax File Number (TFN) report has been lodged notifying the ATO of the beneficiaries' TFN before the end of the financial year if not already done. This is to notify the ATO of any new beneficiaries as they have an obligation to provide their TFN to avoid having TFN withholding applied to payments at a hefty rate of 47%.

Note the ATO has commenced audit activity where trust distributions are made to low tax beneficiaries, the payments of the distribution must be made directly to that individual, promptly and NOT lent back.

Tax Obligations

Tax is a significant burden on your business each year. Why not spend a bit of time each year coming up with strategies to help minimise tax and the impact it has on your business.

Falling behind in your tax obligations is one of the major causes of failure for Australian businesses. In an increasingly complex tax environment, keeping up to date with taxation regulations is an absolute must for businesses of any size or industry.

Often making investments or adopting new strategies at the wrong time can actually cost your business thousands of dollars in lost future benefits, so understanding what your strategy is and why you are executing it is just as important.

We combine a real understanding of your business with financial analysis to establish accurate projections. Whether you are an established business that has been trading for some time or a start-up launching your new business venture, our accountants work with you to make a difference that really works to improve your performance and achieve genuine growth, all whilst adhering to current taxation laws. You'll be able to have absolute confidence that your business or personal tax is in good hands.



What's Next



Tax rules are certainly complex. At Accountants 2 Business we break down the complex and explain your options clearly. We recommend that you book a meeting to see one of our experienced tax experts.

Our Individual tax returns start at \$99 for the guided online service and just \$165 for a return with one of our tax consultants.

For Businesses, we offer a free 1 hour meeting with one of our tax experts. Designed to allow you to decide if our services are right for you.

Every year our consultants work through our tax checklist with each client. The checklist is updated regularly to ensure all matters are addressed and no stone is left unturned when looking for tax deductions.

Disclaimer: The information in this booklet is general in nature and might not be right for your circumstances. Please arrange a meeting with one of our Accountants to discuss your particular needs.

Call our office to arrange your meeting Ph (07) 3823 2344





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