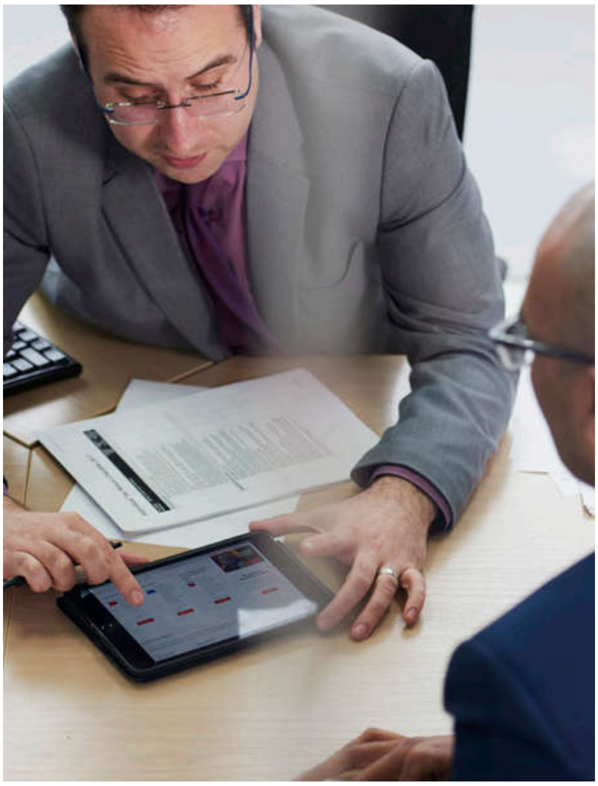

Small business end-of-year planning

There are a variety of decisions that are required to be made at year end to manage your tax bill. Your choice will be based on your businesses activities both past and future and also when you are looking to exit.

In relation to deductions, the general rule is that you can claim deductions for expenses your business that links to making or trying to make income. Many of these deductions are obvious – rent, materials, and supplies are common examples. And don't forget small business owners still have the instant asset write-off amount of $20,000.

There are also some often overlooked and not so obvious tax deduction tactics you may be able to take advantage of in the run-up to the end of this financial year. These may not suit every business, so check with this office to ensure they are applicable to your situation.

Interest on loans

You can deduct interest charged on money your business borrows, including interest paid on business loans, overdrafts and other finance facilities. But there are some other aspects related to interest deductions that can easily be overlooked.

Any interest that is accrued on a business loan but not physically paid by June 30 may be deductible in that year. It is a fact of life that many sole traders fund some business activities through their personal credit card or a personal loan. Because the interest costs are not being incurred under the business name, but in the name of the business owner, many operators have unfortunately assumed that a deduction cannot be claimed. But remember — the tax of a sole trader's business activities is dealt with through the personal taxes of the business owner, so the interest on borrowings made for business purposes, even on the personal credit card, still may qualify to be claimed as a deduction.

Manage the value of your trading stock

Tax time is a good opportunity to do a stocktake to see if you can uncover any deductions from your trading stock – anything you produce, manufacture, purchase for manufacture, or sell for your business.

If your stock level changes by more than $5,000, you must take into account the change in value of your trading stock when you work out your taxable income for the year. If the value of the trading stock is higher at the end of the year than at the beginning, then the rise counts as part of your assessable income. But if your stock is worth less (or worthless), that decrease is an allowable deduction.

There are three different methods of valuing stock: the price you bought it for; its current selling value; and its replacement value. You can choose which you use for which piece of stock, providing you the opportunity to

Small business end-of-year planning *cont*

maximise your deductions. You can also write down the value of any damaged or obsolete stock (potentially to nil) that hasn't been sold.

Also, even if your stock levels change by less than $5,000, you can still chose to revalue your trading stock by one of the methods mentioned above. Note that the value of trading stock does not include GST where you are entitled to a GST credit. You should always keep records of the reasons that you have valued or written off your stock.

A CGT tactic

Consider whether you are sitting in a CGT gain for the current year or you have prior year CGT losses carried forward, and look at offsetting these gains or losses.

If your business is due to sell some assets that will realise a capital loss, try to crystallise these losses before June 30. Losses can be offset against taxable capital gains that you may make on selling other assets. If however the sale will produce a capital gain, delay crystallising this gain until the 2018-19 income year so that you will have a full fiscal year to get an offset for that gain.

And if there are assets that may produce a capital gain, this could help your decision on the timing of making any capital losses. It may even be worthwhile for you to sell an underperforming asset, and realise a loss, if this suits your CGT circumstances.

As a general rule, the disposal of a CGT asset occurs at contract date — this could help in your planning if you sell an asset where settlement and/or payment takes place in 2018-19 but the contract is executed in 2017-18.

The good news about bad debts

It's a problematic fact of running any small business on credit that sometimes customers simply fail to pay for the goods or services you've sold them. But you can claim a tax deduction for the bad debt.

A bad debt is any owed amount that you have genuinely written off by year-end that you have previously been taxed on. It might pay to go back through your outstanding invoices to identify any doubtful debts to determine whether that have actually gone bad and write them off before the tax year ends on June 30.

Also, if you calculate your GST on an accrual basis, don't forget to claim a refund for the GST you paid to the Tax Office when you issued the original invoice on your June BAS. If the debt is settled later, record this as assessable income in the period it is paid.

Commit to employee bonuses and director fee bonuses

Many businesses are entitled to claim a tax deduction for an expense in the year in which the business has committed to the liability regardless on whether it is actually been paid.

If you have committed to pay employees end-of-year bonuses and followed the appropriate steps, the accrued expense can be claimed as a tax deduction even though it is physically paid next financial year. A company can also claim director bonuses in the year the expense is accrued in the same way.

Take advantage of the $20,000 depreciation cap while you can

Considering the extension of the $20,000 instant asset write-off, small businesses shouldn't forget to claim for depreciation – getting a deduction for the loss of value and wear and tear on assets. Larger assets have usually had to be depreciated over several years, but special rules for small businesses mean that you can get an immediate tax write off for any asset costing up to $20,000.

For example, if your business bought a business asset worth $4,000 in the current tax year, the business could claim an immediate 100% tax deduction when you do your tax return. ■

This information has been prepared without taking into account your objectives, financial situation or needs. Because of this, you should, before acting on this information, consider its appropriateness, having regard to your objectives, financial situation or needs.