

## 15 MORE tax tips from the experts

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Last week SmartCompany **brought you 15 tax tips from the experts**, but with the end of the financial year in sight we thought just 15 weren't enough.

So, to start your financial year well-capitalised and stress-free, we've brought you another 15 tax tips to keep your business going during the downturn.

### **Write off that stock, get a deduction**

Several businesses are having troubles with their stock levels during the downturn, with some cutting back inventories and, by consequence, missing out on potential sales.

For those businesses suffering cashflow issues relating to inventories, Mark Morris, senior tax counsel at CPA Australia, says businesses can claim a deduction for stock that has lost value over the past year.

"If your quoting stock's value is less than your opening stock you get a deduction for the difference. That could be important to a company with bad cashflow. You have to prove your stock is obsolete, and you would have to pay more tax next year, but you get savings on this year's tax."

### **Gifts and donations**

If any charitable gifts or donations have been given by your businesses, they must ensure they are listed as a deductible gift by the tax office to claim a deduction. But businesses should be aware that donations shouldn't be made from entities that will expect to incur a loss, and double-check that the entity receiving the donation is a deductible gift recipient for tax purposes.

### **Repairs and maintenance**

While there isn't much time left before 30 June, the experts recommend a business should bring forward any spending on repairs and maintenance to claim a deduction.

But Pitcher Partners partner Chris Hope reminds businesses that repairs and maintenance are defined by the ATO as bringing an asset back to its original condition. Any improvements beyond that may be eligible for deductions over time, but not up-front in the current financial year.

## **Frequent flyer points**

Entrepreneurs will often earn frequent flyer points for travelling on business, but Deloitte's employment taxes partner Frank Klasic says businesses should avoid seeking extra points by using a credit card.

"Earning points is OK, there's no tax consequence of that, but what companies need to know is that sometimes there might be situations where people earn points through non-commercial arrangements. Sometimes people accumulate points through a loyalty card, and they might accumulate points by putting a bill onto their credit card - that does create income tax or FBT issues. It's timely to revisit travel policies.

## **Realising capital gains and losses**

Alan McKeown, Prosperity Advisers' chief executive, says that for investors or anyone with a self managed superfund should review their portfolio carefully before the end of the year. "If there are shares thinking about selling at a loss, they should sell by 30 June," he says.

Chris Hope recommends deferring the realisation of a capital gain if:

- The asset has not been held for 12 months and would otherwise be eligible for the 50% discount rule.
- You expect to record a capital loss in a later income year.
- The exchange of contracts is likely to occur before 30 June, and can be deferred until after 30 June.

Investors should consider realising a capital gain if you have already realised a capital loss or have a capital loss from a previous year. You can gain small business capital gains tax concessions if you disposed of a CGT asset during the 2008-09 year.

## **Salary sacrificing**

Salary sacrificing some of your income into a retirement account is an effective way to maximise superannuation, but now is a good time to consider salary sacrificing for other assets, such as the purchase of motor vehicles or equipment. Check with employers on what type of assets for which they would be willing to offer a salary sacrificing plan.

## **Careful with director's fees and staff bonuses**

These experts recommend that businesses give special attention to director's fees and staff bonuses - two topics on which the ATO will be keeping a watchful eye.

"Ensure shareholder's and director's meetings have been held prior to 30 June, 2009 to ratify the payment of director's fees and staff bonuses and that these decisions have been documented and therefore committed to prior to 30 June, 2009," Chris Hope says.

## **Trust distributions**

Trust distributions are another topic that should be given special attention during the current economic climate, these experts say.

Each trustee should review the deed to ensure all correct procedures have been used in relation to distributing income. Additionally, the reviews should consider if franked dividends can be distributed to low-income beneficiaries to enable an entity to a refund of imputation credits.

## **Review your asset register**

Frank Brass, regional director for H&R Block, suggests businesses take careful note of assets being used that are starting to age.

"Review your asset register for any assets that are obsolete and no longer used in the business and dispose of them or scrap them. This will give rise to a balancing adjustment and a depreciation claim."

## **To lease or not to lease**

Marc Peskett, partner in MPR Group, says those SMEs looking to claim a tax break under the small business investment allowance should consider how that asset is financed. If it is financed through a lease arrangement, it will generally be the lessor that is entitled to the tax break and not the business lessee.

"The lessor may pass on the tax break through reduced lease payments, but this will be subject to commercial negotiation and should be thoroughly investigated to see if there are savings to be achieved," Peskett says.

"If the lease payments are reduced, the cash flow benefit of the investment tax break for the business lessee will be spread over the term of the lease, which may not suit the lessee if they are in a taxable position.

"Conversely if the business lessee is in a tax loss position then leasing, where the benefits of the tax break are passed on through reduced payments, may be a better cash flow option."

### **Fringe benefits tax - cash in**

Frank Klasic reminds businesses that fringe benefits taxes must be kept in mind, but there are some clever tricks entrepreneurs can use to reduce their payments.

"Car log books are not often used by employers in relation to calculating fringe benefit tax because it's an administrative burden, but what this allows you to do is save on FBT where there is an element of use. Many businesses, because they don't have adequate records, default to a statutory method and there [are] probably hundreds overpaid there."

"It is also possible for employees to salary package meal entertainment packages at a lower tax rate than normal income tax rates. If an employee was to salary package that they could package that, plus the FBT tax."

He also warns businesses that if an employee travels more than five nights outside of the country, there needs to be a diary kept of all activities undertaken. "This is a potentially large exposure to those companies undertaking travel," he says.

### **Shareholder loans - be careful**

Division 7A laws state that when an individual takes money from an entity, the value of that money or benefit is taxable in the hands of the individual. Chris Hope warns businesses that the ATO is giving these laws increased attention, so there should be special care taken when dealing with Division 7A loans.

"Loans made by a private company or trust to shareholders and/or associates during the 2009 income year that remain unpaid at the earlier of the due date for lodgement...of the 2009 Company Income Tax Return should be covered by a Division 7A loan agreement."

### **Using company-owned assets**

Several companies would be familiar with Division 7A loan agreements, but Matthew Field, director of enterprise advisers at PKF, says the recent Federal budget has introduced some changes to 7A legislation.

"The Government is now going to look at taxing the use of company assets from 1 July. Previously, if you drew money from a business as a loan, the value of that loan is taxable.

What they're saying now is that if you use company assets, they're placing a monetary value on those assets and are taxing those as well."

"The tip here is [that] business owners need to look at what assets they are using otherwise they'll be hit with tax. It's catching people by surprise."

### **Rental property deductions - time to cash in**

Mark Morris says rental property owners should be aware the ATO is concerned about under-reporting of rental income, and over-reporting of rental deductions.

Nevertheless, rental property owners can claim the following: advertising, bank charges, body corporate fees, cleaning, council rates, electricity and gas, gardening, insurance, interest on loans, land tax, lease preparation expenses, legal costs, pest control, postage and stationery, property agent fees and commissions, repairs, secretarial and bookkeeping fees, security patrol fees, telephone calls and water rates.

### **Distributing income**

Matthew Field reminds businesses that for the 2009-10 year, the tax-free threshold and low income offset result in low-income earners not paying tax on the first \$14,000 earned.

"Consider ways of allocating income to any low income individuals in your family group and note the threshold will effectively increase to \$16,000 for the 2009/10 tax year."

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