

## Make Cents Accounting Business News June 2009

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### FEDERAL BUDGET ROUND-UP

Some business related Budget measures that may be of interest to small and medium businesses are outlined below.

#### Australians working overseas

The Government has announced that it will remove the income tax exemption for foreign employment income, with effect from 1 July 2009. A limited exemption will remain for certain specified aid, charity and government workers.

Currently, foreign employment income earned by Australians working overseas for a continuous period of 91 days or more is exempt from income tax.

Australians working overseas will need to consider the following issues:

- are they still Australian “tax” residents;
- will their foreign income now be taxable in Australia;
- will they be entitled to foreign tax offsets for any tax paid overseas; and
- will there be any fringe benefits tax or PAYG implications?

### TIP

Employers should consider the impact of this proposed amendment in relation to their PAYG and FBT obligations.

### Use of private company assets

The Government has announced its intention to tighten the rules relating to the taxation of benefits provided by a private company to its shareholders or their associates.

It is intended that this measure will be implemented by extending the deemed dividend rules for private companies.

The measure removes the scope for private companies to allow company assets – such as real estate, cars and boats – to be used for free, or at less than their arm's length value without paying tax.

### A QUESTION TO ASK

Are your shareholders using company cars, houses or boats?

These changes could apply where a farm is held by a company and the farmer/shareholder of the company is living in a house on the farm...

### Entrepreneurs' tax offset

The entrepreneurs' tax offset (ETO) currently provides a 25% tax offset for eligible small businesses with an annual turnover of \$75,000 or less (the offset phases out where this turnover is between \$50,000 and \$75,000).

The Government announced that it will defer the application of the income test for the ETO which was announced in the 2008-09 Budget for 12 months.

## Employee Share Schemes

The Government has announced its intention to amend the employee share scheme provisions. The new measures, if implemented, will apply to shares and options acquired after 12 May 2009.

Under the proposed changes, any discounts provided on shares or rights will be taxable in the income year the shares or rights are acquired (i.e. the option for tax deferral will be removed).

Following its announcement, the Government has agreed to further consultation before amending these rules. This consultation process is currently underway.

## SMALL BUSINESS TAX BREAK

As part of the Budget, the Government has announced the extension of the small business tax break (also known as the investment allowance). The tax break was designed to encourage capital investment by Australian businesses.

Despite the Budget extension, time is running out for you to take advantage of the tax break.

It's important to get advice now about whether you should be taking advantage of this one-off incentive. The main features of the tax break are recapped below.

### *The deduction percentage*

- Under the Budget announcement, small businesses will now be able to claim a bonus tax deduction of 50 per cent – up from 30 per cent previously - of the cost of eligible assets acquired between 13 December 2008 and 31 December 2009, and installed by 31 December 2010.
- All other businesses will be able to claim a bonus deduction of:
  - 30% on expenditure for eligible assets acquired between 13 December 2008 and 30 June 2009 and installed ready for use before 30 June 2010; and
  - 10% on expenditure for eligible assets acquired between 13 December 2008 and 30 June 2009 or 1 July 2009 and 31 December

2009 and installed ready for use before 31 December 2010.

### *Spending thresholds*

- There are different eligibility spending thresholds for small businesses (one that has a turnover of \$2 million per year or less) and other businesses.
- Small businesses will only need to spend a minimum of \$1,000 per eligible asset in order to qualify for this special deduction. Other businesses will be entitled to the same deductions if they spend a minimum of \$10,000 per eligible asset.
- Assets eligible for this allowance are new tangible depreciating assets and new expenditure on existing assets used in carrying on your business and for which you can claim a capital allowance deduction.
- This bonus deduction is on top of the usual capital allowance (depreciation) deduction that you can claim for eligible assets.

### **TIP**

To claim the tax break the asset must be a "new" asset not only to the person claiming the deduction but generally. Therefore, the purchase of a demonstration model car may not qualify. If in doubt, seek advice!

## PLANNING FOR YOUR TAX RETURN

### **Getting ready for your tax return**

Before looking at some key tax-time issues for you to consider when preparing your 2009-10 return, it's important to recap briefly on some important basics for your tax return preparation.

### *Tax planning basics*

Tax planning is something you should be looking at regularly throughout the year. The reality, however, is that most of us tend only to look at it about now. Whilst there is no magic formula for the 'best' tax planning strategies, good planning practice aims to:

- **cover the basics** - such as including all your assessable income and maximising all the tax deductions to which you are entitled; and
- **look at opportunities to improve your tax situation** – this depends on your particular circumstances but may include things like ensuring any capital gains are offset with any available capital losses or maximising your superannuation contributions for the year.

**TIP**

It makes things a lot easier if you can keep an up-to-date business assets' register that lists all plant, equipment, furniture, fittings, other assets, including all items bought, sold & disposed of during the year.

**CAUTION**

Be wary – you don't want to breach the general anti-avoidance provisions! For example, "wash" arrangements (ie the sale and purchase of the same assets, or substantially the same asset, within a short period of time) which are designed to give rise to losses to offset gains or other assessable income may fall foul of the general anti-avoidance provisions.

**Key tax-time issues**  
**Maximise your deductions now**

One of the more popular strategies to legitimately maximise your deductions is by prepaying some items of your business expenditure before 30 June.

Before you prepay any business expenses, you should be aware that there are some rules that may affect your entitlement to claim a deduction for prepaid business expenses (eg, you may have to apportion your deduction over more than one tax year).

**Keeping proper records**

It goes without saying that this is essential and is where a lot of problems start if not done properly. To get motivated, some people find it helpful to approach record keeping as if your business could be audited by the ATO at any time. Here are some tips to help you:

- generally you should keep your records for five years.

**COMMON PREPAYMENTS**

Commonly prepaid business items include rent, lease payments, interest, audit and accounting fees, repairs and maintenance, and business related subscriptions.

**WARNING**

Some records need to be kept for longer than 5 years.

For example, if a capital asset is sold – records should be kept for 5 years after the sale.

Similarly, if depreciation deductions are being claimed in respect of an asset, records should be kept until 5 years after the last claim for depreciation deductions.

**Check your bad debts now**

This is a real issue in the current economic climate and one that the ATO always takes a close look at.

If your business has a debt that has already been brought to account as assessable income and you can't collect that debt, you want to make sure you don't end up paying tax on income you can't collect.

The way you do this is to claim a deduction for this debt, where such a debt is 'bad' and is written off in your accounts before 30 June.

- you will need records like bank statements, cheque butts, deposit slips, cashbooks, and accounting records (e.g. your general ledger, trial balance, and preliminary profit and loss statement and balance sheet).

**TIP**

A debt is likely to be considered as 'bad' when you have made an effort to collect it, there is little likelihood that you will ever be successful in collecting it and you have abandoned any debt recovery action.

### **Keep an eye on your business losses**

Has your business received income from more than one activity during the year and one (or more) of these activities made a loss?

This is another area that increases in importance in an economic downturn.

You may be able to reduce your overall taxable income by offsetting this loss (or losses) against profits from your other business activities during this year.

You should be aware that if you carry on business alone or in partnership, there are some special 'commerciality tests' that your business will need to satisfy so you can do this.

#### **TIP**

If you have started up a new business venture during the year which has made a loss, not uncommon in the early stages of a new venture, you will need to find out whether these rules let you claim this loss against your other income.

### **Watch out for GST traps**

It's not hard to make a mistake keeping track of and working out your business' GST reporting obligations, payments and refunds.

Here are some common traps to avoid.

- Be careful not to understate the total value of goods and services supplied.
- Make sure you are not overstating your entitlement to input tax credits.

- Make sure you report supplies and purchases in the correct period.
- Classify your supplies correctly – be particularly careful if you think a supply is GST-free.

### **Value your trading stock at 30 June**

You'll need to value your closing stock on hand and work-in-progress at 30 June. Resist the temptation to guess – this is a common mistake that businesses make!

When you value your trading stock, clearly identify which valuation method you use – cost, replacement, market value (or less if the stock is obsolete).

### **Issue employees' payment summaries**

As a general rule, you are required to give your employees their payment summaries ('group certificates' in the old language) on or before 14 July 2009.

#### **TIP**

Where the total taxable value of reportable fringe benefits for an employee is more than \$2,000 for the current FBT year, you will have to disclose this value (grossed-up) on the employee's payment summary

#### **Disclaimer**

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