

BUSINESS TAX TIPS 2012

Our 20 best End-Of-Year tax tips for Business. Please contact us for any quick queries or a year-end tax review, and feel free to distribute to others. Note that this is intended as a quick checklist only.

1. Reporting Basis

Business that report taxable income on a cash basis may be able to change to an accruals basis, but generally not vice-versa. The cash basis generally applies to personal services type income, or Small Business Entities (SBE) that have continued the STS provisions that applied pre 2007. To qualify as an SBE your grouped turnover needs to be under \$2m.

2. Pay Expenses

For those reporting on a cash basis, paying all creditors by 30 June will allow these expenses to be deducted this financial year. Payment can be by credit card or other means, as long as paid on behalf of the business.

3. Incur Expenses

For those reporting on an accruals basis, an expense will be deductible if it has been incurred, ie payment is owing as at 30 June. Note that acquiring stock may not help reduce tax, as stock on hand will need to be added back to deducted costs.

4. Prepay Expenses

Prepaid expenses, up to 12 months in advance, are deductible for small business in the year incurred (ie invoiced). If on a cash basis, it must also have been paid. Examples are rent, subscriptions, insurance, advertising and business seminars.

5. Pay Staff Super

Superannuation is only ever deductible when paid, so as staff super is due to be paid by 28th July for the June quarter, it makes sense to try pay all super due now, but ensure that it is actually received by the super fund by the 30 June.

6. Buy Equipment

SBE's can deduct equipment purchases under \$1000 (or \$1100 inc GST). Also note that from 1st July this threshold changes to \$6500, so it may be preferable to defer such purchases. The 100% threshold for a non-SBE remains \$300 ex GST.

7. Buy Assets

For assets over \$1000, SBE's are entitled to a 15% flat depreciation deduction, and 30% in following years. From 1st July the first \$5000 of work vehicles is 100% deductible, but it's still better to buy now unless its cost is under \$16500 ex GST.

8. Defer Income

If on a cash basis, this means income not effectively received will be taxable next year. On an accruals basis, any customer invoices issued will need to be included in taxable income. Note that integrity measures may apply to deliberate deferrals.

9. Split Income

Distributing profit between family members may soak up lower marginal rates of tax, whether as salaries, dividends, partnership or trust distributions. Note however that limits apply to Personal Services type income, and trust distributions.

10. Minors Wages

Minors under 18 now attract 45% tax on unearned income over \$416, and no longer get the Low income offset. However it is still possible to pay them a legitimate wage for casual work and normal tax rates and offsets will apply to this.

11. Stock write-off

Where your stocktake reveals obsolete items, these can be written-off or valued at their realisable value, if lower than cost. Lowering your Closing stock value will usually result in a higher Cost of Sales, and lower taxable profit.

12. Bad Debt write-off

Non-recoverable trade debtors should either be excluded from sales income, or expensed as a bad debt if the income was bought to account in a prior year.

13. Capital Gains & Asset write-offs

Reduce any net capital gains by realising any loss investments prior to 30 June. Also review your depreciable asset schedule and dispose or write-off any obsolete equipment to realise a Loss on Disposal deduction for their depreciated value.

14. Shareholder Loans

Repay any excess drawings prior to 30 June to avoid interest on repayable loans and deemed dividend provisions, which now will apply unless such loans are covered by a complying loan agreement, or repaid by your tax return lodgement date.

15. Travel Allowances

Prepare a diary record of business travel and reimburse yourself for any overnight travel allowances where a deduction for meals & accommodation has not been otherwise claimed. Note – maximum allowance rates vary depending on location.

16. Company Tax

Check for prior-year tax losses to utilise, or where taxable profits are unavoidable, consider whether the flat 30% company tax is preferable to your personal tax rate, as it is potentially refundable in future as a franked dividend, or under new Loss Carry-back provisions from 1st July. It may also mean you don't breach personal income tests for offsets or other benefits.

17. Your Super

The maximum deductible contribution remains \$25,000, and \$50,000 if aged 50 or over as at 30 June. From 1st July the maximum limit is just \$25,000 for all, and the contribution tax goes from 15% to 30% for ATI incomes over \$300,000. Excess tax applies to any over-claims, or you can make un-deducted contributions of up to \$150,000 (or 450k over 3 years).

18. Health Insurance

Private health insurance premiums will rise significantly for those with ATI incomes above \$84,000 in 2013, due to income testing of the 30% rebate. But you may prepay next year's premiums to receive the rebate, so see your insurer asap. Next year the Medicare surcharge rises up to 1.5% if you don't have cover, and the net medical expense offset will also be cut.

19. Your Salaries

Consider a salary level that soaks up the lower tax rates, or increases carry-forward business losses, or might reduce your 2013 salaries when many punitive income tests begin. Any unpaid amount may still be deducted and credited to your loan account, providing it is included in personal income. Refer to our summary of income tax examples below.

20. Your Personal Deductions & Offsets

Generally all usual work-related deductions may apply, if an employee, as well as business investment costs. Also note;

- Personal deductions include Income Protection Insurance, but not Life insurance, unless paid by your super fund.
- The Flood Levy may be exempted in your return if you were a resident affected by a declared natural disaster.
- The Super co-contribution is \$1000 for un-deducted contributions, phasing out for incomes from 31920 to 61920.
- A Spouse Super offset of 18% up to \$540 applies for un-deducted super for a spouse with ATI income below 13800.

2012 & 2013 TAX RATES

Below are the tax rates that apply for this year and next, and the following table provides simple examples of tax payable at various levels of income. Also note that many offsets and other government benefits increasingly rely on Income Tests based on Adjusted Taxable Income (ATI). ATI includes reportable super (ie the excess over 9%), fringe benefits, govt allowances & pensions, foreign income, and adds-back investment & rental losses, but deducts any child support paid.

Tax Rates 2011/12			Tax Rates 2012/13		
0	6000	0%	0	18200	0%
6001	37000	15%	18201	37000	19%
37001	80000	30%	37001	80000	32.5%
80001	180000	37%	80001	180000	37%
180001	plus	45%	180001	over	45%
Low Income Offset		\$1,500	Low Income Offset		\$450
Medicare Levy		1.5%	Medicare Levy		1.5%
Medicare Surcharge		1.0%	Medicare Surcharge		1 - 1.5%
Flood Levy >50,000		0.5%			
Flood Levy >100,000		1.0%			

Income Examples 2011/12			Income Examples 2012/13		
Income	Tax	Average	Income	Tax	Average
20000	646	3%	20000	0	0%
36000	3780	11%	36000	3472	10%
52000	9320	18%	52000	9002	17%
80000	18900	24%	80000	18747	23%
104000	28280	27%	104000	27987	27%
150000	46450	31%	150000	45697	30%
* includes medicare & flood levy, but excludes the medicare surcharge					



OTHER YEAR-END REMINDERS

- Stocktake – 30 June, but not essential for SBE's where the stock value change is less than \$5000
- Market valuation – needed about 30 June for property and investments held by or for an SMSF
- Trust resolution – needed by 30 June for discretionary trusts to allocate beneficiary distributions
- PAYG Summaries – issue to employees by 14th July
- PAYG Summary Annual Report – Lodge with Summaries to the ATO by;
 - 14th August - Large Payers or those without Tax Agent
 - 30th September – Those clients with arms-length non-related employees
 - The Due date of your business return – For those just employing family or shareholders

WHATS NEW FROM 1ST JULY 2012

Unfortunately the Gillard government continues to target business and mid to high incomes;

- Building Industry must commence recording taxable payments for all contractor services
- Capital Gains tax – the 50% individuals discount has been removed for non-residents
- Carbon tax begins to apply, increasing energy and business costs
- Company tax remains 30%, but new Carry-back provisions allow 2012 tax to be recouped in 2013
- Depreciation for SBE – assets under \$6500 and first \$5000 of new work cars are 100% deductible
- Education Tax Refund replaced by Schoolkids Bonus & limited to Family Tax Benefit A eligibility
- Eligible Termination Payments - new concessional tax treatment limits
- Entrepreneurs tax offset ends
- Fuel Tax Credit rates change for purchases from 1st July for carbon charges
- Individual automatic \$500 deduction measure has been withdrawn
- Individual flood levy tax ends 30 June 2012
- Individual tax low income offset reduces 1500 to 445
- Individual tax rate of 30% increases to 32.5%
- Individual tax-free threshold goes to 18200
- Living-away-from-home tax concession limited to a maximum 12 months
- Medical expenses tax offset reduces to 10% over 5000 for those with 84000+ ATI income
- Medical Private Health Insurance Rebate is reduced for those with 84000+ ATI income
- Medicare Levy Surcharge increases up to 1.5% for those with no cover and 84000+ ATI income
- Shareholder loans – stricter deemed dividend rules to apply unless a loan agreement
- Super co-contribution reduces from 1000 to 500
- Super contributions for income earners over 300,000 to be taxed 30% rather than 15%
- Super deductible contribution limit drops from 50000 to 25000 for over 50's

Happy New Financial Year & Kind Regards
BC ACCOUNTANTS