

SAYWELLS

Chartered Accountant – Registered Tax Agent - Business Advisor

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Saywells Chartered Accountant, 12 Vincent Street / PO Box 263, Cessnock, NSW 2325
Website: www.saywells.com.au Email: office@saywells.com.au Phone: 02 4990 9766

Before the end of the year

It's only May but if you haven't already, now is the time to start thinking about the end of financial year. It may still seem some time away but those weeks will skip by and we'll be there before you know it.

Last minute tax planning can be a recipe for poor decisions and you need to work through the cash flow implications on anything you decide to do. There is no point saving some tax if you create a cash flow crisis in the process. Tax planning these days' falls into three baskets:

- Health & hygiene;
- Timing & efficiency; and
- Permanent savings.

Health & hygiene

There's no excuse for any business, regardless of size, for not completing a health and hygiene review prior to year end. This review is about making sure that your business has attended to its tax housekeeping. Included in this are:

- Writing off any damaged or obsolete stock;
- Writing off any bad debts;
- Scrapping any obsolete plant and writing it off your asset register;
- Ensuring any loan payments necessary to satisfy Division 7A loan agreements are made; and
- Complete any inter entity management charges.

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New tax breaks for small business

Need a car? If you're in small business the Government thinks you do. Spreading some joy prior to the Federal Budget, Treasurer Wayne Swan has announced an immediate tax write-off for small business of the first \$5,000 on the cost of a new car used for work purposes. However, the tax write-off is not scheduled to start until the 2012/2013 financial year, so we hope you did not need that car now. The write-off is in addition to other previously announced incentives for small business operators due to start in 2012. These include:

- an immediate write-off of all assets valued at under \$5,000 (up from \$1,000 presently);
- a write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30%. Currently, small businesses allocate assets to two different depreciation pools, with two different depreciation rates (30 per cent and five per cent); and
- a reduction in the company tax rate to 29%.

The write-off for cars will replace the current entrepreneur's tax offset that provides a 25% tax offset on business income where income is between \$50,000 and \$75,000.

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Before the end of the year

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All of these actions need to be taken before June 30 and your accounts need to reflect that the actions were completed e.g., a bad debt that is written off should be reversed out of your debtors ledger before June 30.

Timing & efficiency

Managing timing and efficiency is about causing your tax liability to fall at the best time for you. You do this by bringing forward expenses or deferring income. The efficiency part is about ensuring that tax is being paid by the entities or people where you can enjoy preferential tax rates. Think about the following:

- Declaring bonuses before June 30, even though they may not be paid until after that time;
- Declaring director's fees;
- Ensuring June quarter Superannuation Guarantee Charge (SGC) payments for employees are made before June 30;
- If you are a Small Business Entity (SBE), prepaying some of your expenses before June 30;
- Paying dividends;
- Committing to necessary consumable expenses pre June 30;
- Making Trustee resolutions to distribute trust income;
- Deferring income until after June 30, where possible;

Some of these strategies revolve around deferring income to the following year and bringing forward expenses and tax deductions into the current year. Don't always accept this as the right strategy. If you are in a start-up business and not generating a profit yet, you may not want to defer your taxing point. While saving tax always seems like a good idea consider the rate of the tax saving. It will be a mix of personal and possibly company tax rates. Saving a tax dollar this year where the benefit may only be 20 cents in the dollar, is poor economy if next year you will pay 46 cents on the same tax dollar. Tax timing requires you to have a view about your current year position and any differential position for the following year.

Permanent savings

Permanent savings always sound attractive but you need to have the cash flow to manage them and be comfortable with both the short and long term outcomes. These strategies include:

- Maximising your superannuation contributions;
- Donations; and
- Consider holding your life insurance through your superannuation fund.

We'll look at some other opportunities before year end but this gives you something to start working on. Keep your cash flow position in mind. You need to work out the cash flow effect of any decisions you might take. The more available cash you have, the easier it will be to make all of this work. So, perhaps now is the time to start following up your debtors and chasing some of those old accounts.



“Permanent savings always sound attractive but you need to have the cash flow to manage them and be comfortable with both the short and long term outcomes.”

ATO benchmarks – what you need to know

The ATO use industry benchmarks to assess business performance and will take a closer look at businesses that fall outside of these benchmarks. But what happens if you have a niche business or have unusual trading conditions that mean you will almost never fall within these benchmarks?

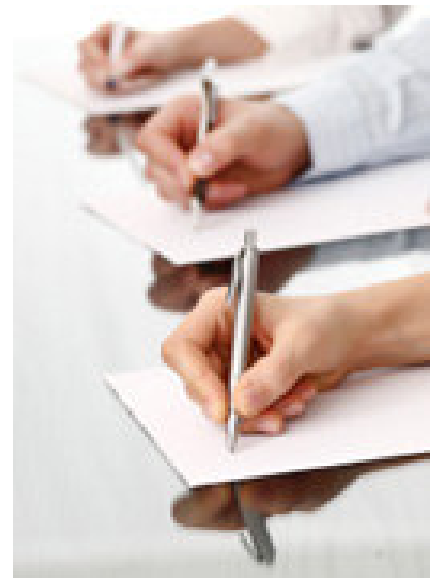
This is the major problem with the current benchmarking approach. The ATO has a huge data base of information on business performance. When you lodge your business income tax return your accountant needs to include an industry code that is the closest match to your business. It is through the matching of data against common industry codes that the ATO builds its benchmark information and is able to statistically establish ranges for what is normal. With a lot of businesses however, there is no such thing as normal.

If you operate in a niche area then the industry code applied for your business may be the closest general match but you could have very different business characteristics to other businesses identified under the same code. Where this occurs it may throw you outside of the normal range. Even where you operate a business that is relatively homogenous and similar to a lot of other industry participants you may have multiple revenue streams within the business that cause differences. So, whether or not your business is within the normal range for your industry code can be irrelevant. You should not be trying to work to any pre determined performance range. Drive your business to produce the very best results possible.

Knowing that the ATO may compare your business to others in your sector you may want to ask your accountant to test your key numbers against the performance benchmarks the ATO publish. A good starting point is to see how you measure against the ATO information. More importantly, your accounting systems and record keeping should establish the accuracy of the tax information you are reporting. Your risk position increases significantly if you are outside of the benchmark range and your accounting and information systems are substandard and there are gaps in substantiating your information. Even where you are doing everything correctly you need to be capable of demonstrating that accuracy of your information from your information systems. There is also a higher focus on benchmarks if you are in a business sector that has a higher level of cash sales. From an ATO point of view, you are a higher risk candidate.

If you are concerned about the benchmarks we can complete a review of your position and make recommendations on your accounting and information systems (a mini tax audit on your business to see what the ATO would see). If there are any surprises, it is better to hear it from a friendly source. This would also allow you to fix up any system gaps that exist and be better prepared if the ATO comes calling.

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A referral is the ultimate compliment our business can receive. If you have a friend or family member who needs advice, we're happy to assist

Quote of the month

“Happiness never lays its finger on its pulse.”

Adam Smith

Saywell Services Pty Ltd ABN: 33 083 874 631

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