February 10, 2016

MEDIA RELEASE

H&R BLOCK TAX ACCOUNTANTS

Taxing Time for Small Business In 2016

Many of Australia's 3 million small businesses, which employ 5.1 million people, are now finalising their 20142015 accounts in advance of impending tax filing deadlines in March and May. Australia's largest firm of tax accountants, H&R Block, warns that businesses need to watch out for tax traps as they prepare their returns. There are important new rules to be aware of which could save you tax but can add an extra element of complexity to the task.

Small businesses, defined by the Australian Taxation Office as those with an annual turnover of less than $2 million, are eligible for a range of tax breaks which can be explored during the current tax season.

Instant Asset Write-off

Between now and 30 June 2017, small businesses can immediately write off any asset purchase costing less than $20,000, but caution needs to be taken when claiming the write-off.

To minimise your chances of having the ATO challenge the deduction, here are some key tips to be aware of:

1 **Only small businesses qualify**. This might seem obvious but you actually have to be in business to be a small business, not just a holder of an ABN number.

2 **Understand what the tax break is.** It is not a cash hand-out but a deduction from your 2014-2015 profit. If you spend $20,000 from on a capital purchase, you will receive a 30 per cent deduction (28.5% from 1 July 2015) which equates to a $6,000 reduction in your tax and means you will still be out by $14,000 on the purchase. If it's something you were going to purchase anyway, good luck and enjoy the benefit but if you've acquired something, or are planning to acquire something, purely to save tax, you might want to think again. What you gain in the year of purchase will gradually be clawed back through reduced deductions in future years.

3 **The amount you can claim is GST exclusive.** This is relevant if your business is registered for GST and can claim an input tax credit on the purchase. The amount you can claim is the GST exclusive price.

4 **The asset must have been installed and ready for use.** This is particularly important if you purchased the asset before the end of the 2014-2015 financial year. If you'd purchased it before 30

June 2015 but didn't have it available for use until July 2015, you can only claim the deduction against your 2015-2016 results.

5 **Second-hand assets.** You can claim a deduction for second hand assets.

6 **Beware private use.** To claim the full deduction, the asset has to be used in the business and if there has been personal use, the deduction needs to be pro-rated to reflect this.

Trading Stock

The Tax Act provides a set of simplified trading stock rules whereby if your trading stock did not change in value over the tax year by more than $5,000, you can include the same stock value at year-end as at the start of the year. Obviously, if you needed to do one, you'd have done a stocktake by now but this might be something to be aware of for next year.

Pre-paid Expenses

A small business can also get an immediate tax deduction for certain pre-paid business expenses that were made before the end of 2014-2015. If a payment covered an expense that has gone into the new financial year (like insurance premiums, rent or membership of a trade or professional body) you can claim that deduction in the last financial year. Check your payments for the period before 30 June 2015 to see if anything qualifies.

Help for Capital Gains Tax (CGT)

The special small business CGT concessions are in addition to the 50% general CGT discount applying to individuals, trusts and super funds (but not companies).

There are four CGT concessions that may be available to eliminate or reduce capital gains made by a small business or its owners where it disposes of "active" assets, like a trade or business premises but do not extend to passive assets such as an investment portfolio.

Don't Blur the Lines Between the Company's Money and Your Own

Many small businesses get caught out by the so-called „deemed dividend' rules. Under tax law, loans and advances to private company shareholders or their associates are deemed to be taxable unfranked dividends for the shareholders. The intention of these rules is to stop the profits of private companies being distributed to shareholders as tax-free "loans".

So, if you find yourself borrowing money out of the company of which you're a shareholder, try to ensure those borrowings are repaid by the time the company's tax return for the year is due. If that isn't possible, declare a dividend and treat the amount as income, in which case, the dividend would be franked if applicable.

The Golden Rule - Keep Records!

Good record keeping is your best friend for efficient business management and will also make life easier if the Tax Office ask you questions.

Tax law requires that records be kept for five years, and they should include:

- sales receipts

- expense invoices
- credit card statements
- bank statements
- employee records (wages, super, tax declarations, contracts)
- vehicle records
- lists of debtors and creditors
- asset purchases.

Records can be kept on paper or electronically, but should be easily retrieved. In our experience, businesses often stumble when asked by the Tax Office to verify transactions by providing supporting records, with the consequence that even “innocent” businesses can find themselves stung by the tax man where they are unable to provide the requested evidence

What About Your Deductions?

We all know you've got to spend money to make money and if you spend it to produce 'assessable' income, then your business will usually be entitled to a tax deduction. Many businesses trip up by inflating their deductions or claiming for something they shouldn’t but a surprising number also miss out on deductions they could have claimed. In reality there are legitimate, not-to-be-forgotten deductions that almost every business can take advantage of.

The basic rule of course, to avoid the attention of the ATO, is that you need to show you are actually 'out-ofpocket', and that the expense has been incurred to run your business. Here then are some tax deductions you may be able to claim:

- ***Advertising and sponsorship***
- ***Bad debts***
- ***Expenses in Borrowed money***
- ***Business travel***
- ***Car expense deductions***
- ***Fringe benefits***
- ***Home work claims***
- ***Insurance***
- ***Plant and equipment (depreciating assets)***
- ***Repairs, replacement, maintenance***
- ***Superannuation contributions***
- ***Salary and wages***
- ***Tax agent management expenses***
- ***Telephones – calls and rental***
- ***Losses from theft***

For further information please contact:

Mark Chapman	Tim Allerton
Director of Tax Communications	City PR
H&R Block	(02) 9267 4511 or 0412 715 707
0415 844 388	