

# YEAR END TAX PLANNING STARTS NOW

BY JAMES SOLOMONS CA

**MANY business owners think that June 30 is the date that they need to start thinking about their taxes for the past year.**

Even more distressing is that some accountants also see this as the appropriate time to start looking after their client's tax affairs for the past year. Sadly, this dangerous combination of thinking can cost business owners a lot of money.

Once 30 June passes, there is very little that you can do to minimise a possible tax payable on business profits for the previous financial year. However by starting the tax planning process as soon as the March BAS has been completed in either April or May leaves ample time to review your prospective tax position and put in place one or more strategies to legally reduce your eventual tax bill (or wipe it out altogether!).

Why April or May? Well at this point in the year there has been 9 months of trading and the profit position at this point in time is a good indicator of the probable year end profit position of most businesses (taking into account some assumptions regarding the final quarter's trading). In any business, careful cashflow planning is essential to ensure you remain in a strong trading position and this 9 monthly review forms an integral part of this planning process.

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For any business owners who don't take the time to sit down with their accountant at this time of the year the overriding questions keeping them awake at night are "What will my tax bill be this year?" or, "Have I put enough money aside for my tax?"

And for most, this question isn't answered until much later in the year (or even the following year) and often comes with a surprise tax bill of the larger variety. How many sleepless nights does that add up to?

But had they provided their figures to their accountant and made the time to go and see them for a planning meeting, they may have known the answers to these questions months in advance to the due date for payment and been able to plan on how to make the payment; and also been able to put in place a few strategies to reduce the overall tax bill.

Yes there is a cost associated with getting your accountant to prepare the figures and provide the advice but in most cases the benefits (the possible tax reductions) outweigh the cost of the services.

And when the accounts are prepared a good accountant will go one step further and provide some analysis on other areas of the business as reported in the trading figures with a view to helping you improve your overall trading position, as opposed to just reducing your tax. At this time of the year, accountants have the time available to do this, unlike during the busy tax season when time is limited.

Below are some of the common strategies that can be implemented to achieve the optimal tax position for your business:-

- **Maximising business owner's superannuation contributions.**
  - If cash flow permits, making superannuation contributions for business owners up to the respective cap (\$25,000 for persons aged under 50 and \$50,000 for persons 50 and over, which includes their 9% Super Guarantee Contributions). The contributions must all be received by the superfund before June 30, 2011 to able to be claimed as a tax deduction.
- **Employee superannuation payments.**
  - To claim a tax deduction for employees superannuation contributions that payment must be received by the fund before June 30, 2011 (ie, cleared from your account). A cheque drawn on June 30, 2011 to the employee's fund is not sufficient. This means that the June Quarter 2011 contributions due by the July 28, 2011 can not be claimed if not received by the superfund prior to June 30, 2011. Confusing, yes, but it means that you need to work out the contributions in advance and make the payment early to be able to claim the tax deduction in the 2011 financial year
- **Defer trading income.**
  - Where practical, defer issuing further invoices and/or receiving cash and debtor payments until after June 30, 2011 (depending on your reporting requirement, cash v accruals). However, please note that you will still have to pay tax in 12 month's time on any income deferred so this is more of a way of deferring tax for a further 12 months, rather than a true minimisation strategy.
- **Bring forward expenses.**
  - Purchase and make payment for business expenses that can be claimed immediately in the profit and loss prior to June 30, 2011 (generally this relates to consumables and repairs & maintenance costs, but excludes payments for purchases of capital equipment).

- **Defer investment income and/or capital gains.**
  - If practical, arrange for the receipt of investment income (ie, interest payable on maturing term deposits) and the "Contract" date for the sale of capital assets to occur after June 30, 2011.
- **Write off bad debts**
  - Review your trade debtors / accounts receivable listing to write off bad debts deemed unrecoverable before June 30, 2011. Prepare a minute of a directors meeting, listing each bad debt as evidence that these debtors were actually written off before June 30 (only applicable for business reporting income on an accruals basis).
- **Write off obsolete assets.**
  - Review your depreciating plant and equipment before June 30, 2011 to identify those assets that are damaged, obsolete or missing as these items will be written out of the asset register and a loss claimed for their carrying value in the 2011 financial year. Prepare a minute of a directors meeting, listing each obsolete asset as evidence that these assets were actually written off before June 30.
- **Write off obsolete stock.**
  - Undertake a stock take shortly before June 30, 2011 of your trading stock to identify goods that are now obsolete as these can either be written down to their net realisable value or written off in full in the 2011 financial year.
- **"Small Business" entities – Prepayments.**
  - Small Business entities can make prepayments (up to 12 months) on expenses before June 30, 2010 (eg Rent, Interest on loans) and obtain a full tax deduction in the 2011 financial year.

Every business is different and not every one of the strategies listed above are suitable for every tax payer and therefore these strategies are of a general nature only and only intended as a guide. Therefore, the best person to advise you on which are the right strategies for your business is your accountant.

If you haven't heard from your accountant yet, or have never been through the tax planning process the first step is to contact your accountant and tell them that you want to know your expected tax now and how you can reduce it before it is too late.

Your accountant will request from you all of the financial data they need to prepare the nine monthly accounts and analyse your tax position. Then you can meet with them to discuss your tax planning options.

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