SLASH YOUR TAXES:

The Business Owner's Guide to Keeping More of Your Money this tax season.

WALSH
ACCOUNTANTS

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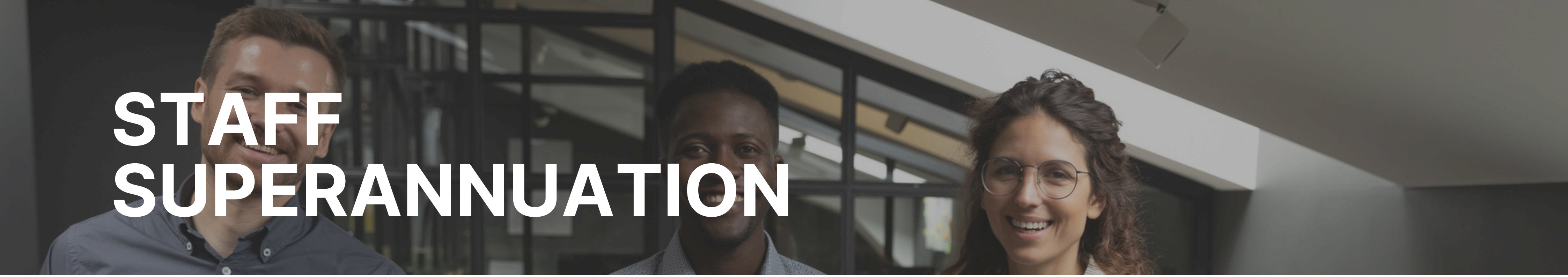
This is your essential playbook for turning the tide in your favour against the often-overwhelming waves of taxation. This isn't just another tax book; it's a guide specifically for business owners who are tired of watching their hard-earned profits dwindle under the weight of taxes. Within these pages, you'll discover details on each of these strategies and where appropriate, examples so you can see the strategy in action. The road to lesser taxes and greater profits is paved with knowledge and action.



STAFF SUPERANNUATION

Employers are mandated to contribute to their employees' superannuation funds within 28 days after the quarter's end, with a key deadline being 28 July for the June quarter. Yet, a strategic approach involves making these contributions before the close of the financial year in June. This action not only ensures compliance but also leverages tax planning to your advantage.

By contributing to staff superannuation in June, you position your business to claim these payments as deductions in the current tax year. This move isn't just about adhering to regulations—it's a proactive step that can lower your taxable income, potentially leading to significant tax savings.

As is takes some time to process payment through the Small Business Superannuation Clearing House (SBSCH), we highly recommend you make your SG payments no later than the 20th of June.

Employee superannuation payments must be received by the super fund or the Small Business Superannuation Clearing House (SBSCH) by 30 June 2024.

As is takes some time to process, we highly recommend you make your SGC payments by the 20th of June.

MAXIMISE SUPERANNUATION CONTRIBUTIONS

By choosing to channel a portion of their earnings into superannuation, business owners not only secure their financial future but also benefit from immediate tax advantages. These contributions are taxed at the concessional rate of 15%, significantly lower than individual marginal tax rates. This means that each dollar contributed to superannuation attracts less tax compared to if it were received as regular income and lowers your taxable income, effectively reducing the overall tax liability.

For example:

Husband and wife – both work in the business and will be on the top tax rate. Neither of them has paid themselves any superannuation contributions throughout the year.

Our Accountant advised them they can make a maximum contribution of $27,500 each. The contribution is subject to 15% tax inside of super.

CURRENT YEAR TAX SAVING » $17,600 NET

Catch up Super Contributions.
From 1 July 2018, people can make "carry-forward" concessional super contributions if they have a total superannuation balance of less than $500,000 at the end of the prior financial year. People can access their unused concessional contributions caps on a rolling basis for five years.

Catch up contributions can be difficult to calculate so professional guidance is highly encouraged.
For more information, visit our website – **How to take advantage of the 1 July super cap increase.**

PREPAY EXPENSES

As the end of the financial year approaches, savvy business owners are presented with a valuable opportunity to optimise their tax position by prepaying business expenses. By strategically prepaying certain expenses before the close of the financial year, businesses can accelerate deductions, reduce taxable income, and ultimately lower their tax liability.

One of the primary advantages of prepaying business expenses is the ability to bring forward tax deductions into the current financial year. By prepaying expenses such as rent, insurance premiums, or professional services and memberships, businesses can claim an immediate deduction for these expenses, effectively reducing their taxable income for the year.

This strategy can result in substantial tax savings, particularly for businesses operating on tight margins or anticipating higher-than-usual profits in the current financial year.

However, it's essential for businesses to exercise caution and ensure compliance with relevant tax laws and regulations when prepaying expenses.

For example:
A business owner operating a company experienced a large jump in profit (with an annual turnover of less than $2M).

The business was scheduled to pay these expenses in the following quarter in the new tax year:

- Interest on bank facilities $27,650
- Rent on business premises (per month) $6,540
- Business insurances due in July $34,650
- Pre-planned marketing spend in August $35,000

As the company is a small business entity (SBE), we worked with the client (and their cashflow) to:

- Prepay interest for year / 12mo in advance,
- Prepay 3 months rent,
- Arrange premium funding in June,
- Pay invoices in June.

CURRENT YEAR TAX SAVING » $29,230.

Consulting with a specialist accountant or tax advisor can help businesses identify eligible expenses, determine the optimal timing for prepayment, and navigate any potential pitfalls or limitations associated with this strategy.

BUYING NEW EQUIPMENT

At the end of the financial year, businesses are presented with a strategic opportunity to capitalise on valuable tax benefits through the purchase of new equipment (ensuring they have the cashflow to allow such purchases).

Purchasing new equipment not only boosts operational efficiency and productivity but also presents notable tax benefits. These advantages encompass the opportunity to leverage the $20,000 instant asset write-off and the potential reduction of business profits, leading to decreased individual tax if the business is operating through a trust.

Let's look at this scenario:
A small business being operated through a trust has sufficient income which means the individual beneficiaries of the trust (business owners) are in the 34.5% tax bracket.
The business needed to acquire a range of plant and equipment to replace old and provide for future growth within the next 6 months, including:

- New work van $19,500
- Replacement of IT server $16,500
- 5 new laptops $15,000
- Reception and desk replacements $7,600
- Upgraded phone system $12,300

We identified under the $20,000 instant asset write off scheme, the small business can immediately write off each asset with no upper limit to each asset's cost. The client then arranged with their finance provider to fund all using chattel mortgages.

CURRENT YEAR TAX SAVING $24,460.50

Investing in new equipment at the end of the financial year not only offers immediate tax benefits but also positions businesses for long-term success and sustainability all whilst minimising the amount of tax you're required to pay!

MAXIMISE INVESTMENT PROPERTY DEDUCTIONS

To maximise investment property deductions, meticulous attention to eligible expenses is paramount. From mortgage interest and property management fees, to repairs and depreciation, identifying and documenting every deductible cost is crucial.

Additionally, exploring avenues such as capital works deductions and claiming for depreciation on fixtures and fittings can further enhance deductions.

To maximise investment property deductions:

Document all expenses

Keep detailed records of all expenses related to your investment property, including mortgage interest, property management fees, repairs, maintenance, insurance premiums, body corporate fees and council rates. Thorough documentation is essential for claiming deductions accurately.

Claim depreciation

Take advantage of depreciation deductions on both the building structure (capital works deductions) and the fixtures and fittings (plant and equipment deductions). Engage a quantity surveyor to prepare a depreciation schedule, ensuring you capture all eligible depreciation expenses.

Timing of Expenses

Consider the timing of expenses to optimise deductions. For example, schedule repairs and maintenance before the end of the financial year to claim deductions sooner. Similarly, prepaying certain expenses, such as insurance premiums or interest payments, can accelerate deductions.

Explore Capital Works Deductions

Capital works deductions allow you to claim deductions for the construction costs of the building and structural improvements over time. Understanding which capital works expenses are eligible and the applicable depreciation rates can significantly increase deductions.

Engage Professional Advice

Seek guidance from qualified tax advisors or accountants with expertise in investment property taxation. A professional can help you navigate complex tax laws, maximise deductions, and ensure compliance with regulations, ultimately optimising your tax position and maximising deductions.

If you would like to know everything that can be used as expenses against your investment property, refer to our Rental Property Schedule. This schedule can also be used to help you record all of your expenses.

MAXIMISE INVESTMENT PORTFOLIO DEDUCTIONS

For an investment portfolio consisting of shares and managed funds, maximising deductions to minimise tax liability involves tailored strategies that are put into play throughout the financial year. A specific end of financial year strategy for tax minimisation is to pre-pay interest on borrowing.

Example:

A client had an investment portfolio of shares and managed funds which was geared. Investment debt of $640,000.

Client on top marginal tax rate.

We advised that the interest on the investment debt could be prepaid and claimed in the current year. Client prepaid interest of $35,840.

CURRENT YEAR TAX SAVING » $16,845.00

Prepayments are only deductible for up to 12 months in advance.

TAX EFFICIENT TRUST DISTRIBUTIONS

A tax-efficient trust distribution refers to the strategic allocation of income and capital gains from a trust to beneficiaries in a manner that minimises the overall tax liability for both the trust and the beneficiaries.

Trustees can choose to distribute income and capital gains to beneficiaries who are in lower tax brackets or have tax offsets or deductions available, thereby reducing the total tax payable on the distributed amounts.

Example:
A client is operating a business using a trust. Business income was $175,000. The client was intending to distribute all income to himself.

When reviewing their tax numbers, his wife's salary income was only $20,000.

We prepared distribution minutes to allocate $75,000 to his wife*, and the balance to himself.

Tax if he had distributed all income to himself $53,317.
Tax using the above allocation to himself and his wife $44,309.

CURRENT YEAR TAX SAVING » $5,108.00

Reference to ruling S100A – i.e. The client's wife would need to see the benefit of $75k distribution, and that it is not just a "paper distribution".

A tax-efficient trust distribution involves careful planning and consideration of beneficiaries' tax circumstances, income types, and tax treatment of distributions to maximise tax savings and optimise the overall financial outcome for both the trust and its beneficiaries. Consulting with a qualified tax advisor or accountant with expertise in trust taxation is highly recommended and encouraged.

ESTABLISHMENT OF BUCKET COMPANY

Setting up a bucket company can offer several advantages for individuals or families with a discretionary trust structure.

They are particularly useful in a taxation planning scenario as bucket companies allow for income splitting within a family group, enabling the distribution of trust income to corporate beneficiaries at different tax rates. This can help optimise tax efficiency by allocating income to lower-taxed entities, thereby reducing the overall tax liability.

Example:
A client's trading company (SBE) was likely to pay a franked dividend to the trust who owned the shares of $400,000.

The client was already on the highest tax bracket and wasn't planning on using the funds.

Top up tax payable by the client would have been $117,333.

We identified that if another company is established before 30 June, the trust could distribute the franked amount to a 'bucket' company.

As the income was franked, there would be minimal tax payable by the company.

CURRENT YEAR TAX SAVING » $90,666.00

It's essential to seek professional advice from a qualified accountant or tax advisor to assess whether this strategy is suitable for your specific circumstances and objectives.

FLOW FRANKED AMOUNTS THROUGH A TRUST WITH LOSSES

Flowing franked amounts through a trust with losses involves passing on franking credits attached to dividends received by the trust to beneficiaries, even if the trust itself has incurred losses. Here's how it works:

Franked Dividends: When a trust receives dividends from Australian companies, those dividends may come with attached franking credits. Franking credits represent the tax already paid by the company on its profits. These credits can be used to offset tax payable on other income or refunded to the taxpayer if they exceed the tax liability.

Trust Losses: If a trust incurs losses in a particular financial year—for example, due to operating expenses exceeding income—the trust may not have any taxable income against which to apply the franking credits received from dividends. In such cases, the franking credits would go unused if they couldn't be passed on to beneficiaries.

Distribution of Franking Credits: A Trust can distribute the franking credits to beneficiaries if there is taxable income. However, the franking credits must not be the reason that the Trust has taxable income. I.e. the Trust must have at least $1 of taxable income excluding franking credits. The trust can then distribute franking credits to beneficiaries along with any trust income.

Beneficiary Tax Treatment: When beneficiaries receive distributions from the trust that include franking credits, they can use these credits to offset tax payable on other income they've received. If the franking credits exceed the beneficiary's tax liability, they may be entitled to a refund of the excess credits.

Optimising Tax Outcomes: Flowing franked amounts through a trust with losses allows for the optimal utilisation of franking credits and can result in tax savings for beneficiaries. By passing on these credits to beneficiaries who have taxable income, the overall tax liability of the beneficiaries can be reduced or refunded, enhancing the tax efficiency of the trust structure.

Please be mindful that this is a very technical strategy and it's essential to ensure compliance. Seek professional advice from a qualified accountant or tax advisor to implement this strategy appropriately.

Example:
Husband & wife have a trust that owns the shares in their trading entity (SBE) which had retained profits and franking credits. The trust had $78,000 in carried forward losses. The clients had no further income.

Husband and wife are both beneficiaries of the Trust.

We advised the client that the company could declare a franked dividend of $150,000 (with $50,000 imputation credits). After utilising the trust's losses, the clients each received refunds of $13,573.

CURRENT YEAR TAX SAVING $27,146.00

TAKE DIVIDENDS AS OPPOSED TO SALARY

In maximising tax efficiency, business owners often opt to receive dividends rather than salary for several reasons. Firstly, dividends are typically taxed at a lower rate compared to salary income, resulting in potential tax savings. Additionally, by taking dividends, owners can retain more profits within the company as retained earnings, allowing for reinvestment into the business or building reserves for future needs. This strategy provides flexibility in managing personal income, as owners can adjust dividend payments based on both company performance and individual financial requirements.

Generally, dividend payments avoid additional taxes, such as payroll tax, PAYG Withholding, and Medicare Levy further reducing the overall tax burden.

For example:
Clients (husband and wife) were planning to declare a gross salary each of $100,000 to cover the amounts they had taken from their trading company. The company was unlikely to make a taxable profit in the current year, however it had sufficient retained profits and franking credits.

The tax for each of them on the salary would have been $23,767 ($47,534 total) which the company would have needed to pay as PAYG Withholding.

We suggested that instead of salaries for the year, the company declare a franked dividend to each of them of $100,000. This resulted in tax each of $3,734 after utilising the imputation credits.

CURRENT YEAR TAX SAVING $40,066.00

Payment of a dividend can be better from a cashflow perspective due to PAYG withholding and a requirement to pay compulsory superannuation contributions on top of wages (salary).

HOW CAN WALSH ACCOUNTANTS HELP?

Our dedicated team will help you navigate tax season with confidence and peace of mind.

Navigating the complexities of tax season can be overwhelming for business owners, but with Walsh Accountants by your side, you're not alone in the journey. Our comprehensive approach to tax planning empowers businesses to minimise liabilities and maximise profits. From strategic superannuation contributions to prepaying expenses and optimising investment property deductions, our expert team provides tailored solutions to suit your specific needs. We understand the importance of timely action, offering actionable insights and resources to kickstart your tax optimisation journey.

Whether you're looking to reduce taxable income or explore tax-efficient trust distributions, we have the expertise to guide you every step of the way. Don't let tax season stress you out—partner with Walsh Accountants today and take control of your financial future. With our proactive strategies and personalised support, you can navigate tax season with confidence and peace of mind.

DISCLAIMER This guide is only intended to be general in nature and the appropriateness will be dependent on each individual's circumstances. This information is provided as an information service only and, therefore, does not constitute financial product advice and should not be relied upon as financial product advice. None of the information provided takes into account your personal objectives, financial situation or needs. You must determine whether the information is appropriate in terms of your particular circumstances. For financial product advice that takes account of your particular objectives, financial situation or needs, you should consider seeking financial advice from an Australian Financial Services licensee before making a financial decision. The advice provided is not 'financial product advice' as defined by the Corporations Act. We are not licensed to provide financial product advice and taxation is only one of the matters that you need to consider when making a decision on a financial product. You should consider seeking advice from an Australian Financial Services licensee before making any decisions in relation to a financial product.

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