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It's that time of the year again - Tax time.

So start searching behind the couch for those receipts, wade through the lake of paperwork to find those invoices, sharpen those pencils, grab that calculator and strap on those thinking caps.

As 30th June fast approaches, it is important to consider tax planning strategies which will legally minimise tax. Some of these may take the form of maximising deductions and/or deferring income where possible.

This is your guide to the end of financial year. To make it a little easier, we've included a few tips; but please make an appointment to see us for advice tailored to your individual situation and requirements.

June 2009 Client Newsletter Points:

Reduction of Concessional Super Contributions Cap

Make the most of the higher 2008/09 concessional superannuation contributions cap, before it ends. For this purpose, contributions must be received and recorded by the fund no later than 30th June 2009.

Concessional contributions are those for which a tax deduction is claimed. They could be either employer contributions or personal contributions made by a self employed person.

Consider implementing a salary sacrifice arrangement with your employer for the remaining weeks of this financial year. This also has the added benefit of reducing your tax you pay whilst increasing the overall contribution to your super.

If you are eligible to claim a deduction for personal contributions (e.g. you are substantially self employed), then consider maximizing your super contributions before 30th June.

The concessional contributions caps are summarized in the following table:

Age category	08/09 Concessional Contributions Cap	09/10 Concessional Contributions Cap
Under age 50	$50,000	$25,000
Over age 50	$100,000	$50,000

From 1st July 2009, salary sacrifice arrangements may need to be reduced to ensure that your total concessional contributions do not exceed $25,000 if under age 50, or $50,000 if age 50 or over. It is very important to take into account employer contributions made under Superannuation Guarantee (SG) requirements. By exceeding the cap you are liable for an additional 31.5% excess contributions tax.

Investment Allowance Tax Break

Small Businesses with turnover of less than $2 million are eligible for a tax deduction of 50% of the cost of an eligible new tangible depreciating asset purchased before 31st December 2009, and installed ready for use by

31st December 2010. The asset must cost more than $1,000 to be eligible.

However all other larger businesses are subject to a different regime. A 30% deduction rate will apply where the eligible asset is acquired by 30th June 2009, and installed ready for use by 30th June 2010. A reduced rate of 10% will apply when it is acquired between 1st July 2009 and 31 December 2009 and installed by 31st December 2010. Also, for larger businesses the eligible asset must cost more than $10,000.

Therefore it is advantageous for larger businesses to acquire the asset if possible by the 30th June 2009 to qualify for the higher deduction available.

Bad Debts Write Off

A deduction is allowed if the debt was previously included in income and it is actually written off during the year in which it is claimed. Check your debtors before 30th June to see what debts are not recoverable and can be written off.

To be deductible, bad debts must be actually written off during the tax year – a physical entry must be made in the books of the business not later than 30th June. Have a realistic look at your debtors during the months before the end of the year and make an effort to collect the old and doubtful debts.

Sort out the debts you cannot realistically collect and write these off not later than 30th June to at least avoid paying tax on income you are not going to receive. The Tax Act allows a deduction for even a partial write off of bad debts. Review your debtors and write off that part of any debt you know will never be paid. If you are using the cash method of tax accounting, this does not apply.

If you are paying GST on an accruals basis you pay GST on all income whether or not it has actually been received. If your outstanding debtors are more than 12 months old, you can claim a decreasing adjustment resulting in a reduction of GST. In other words, you can treat the debt as a bad debt.

Deferral of Income

In determining when income is derived, different rules apply to different kinds of income and taxpayers.

In most cases it will be advantageous to return income on a receipts (cash) basis as income is deferred until receipt, rather than when it is invoiced. Given the size and nature of the business concerned, it may not be possible to return income on a cash basis.

A simple end of year tax planning strategy for businesses on a cash basis is to delay ‘receipt’ of the income until after 30th June 2009. Businesses on an accruals basis can defer income by delaying the ‘issuing of invoices’ until after 30th June 2009.

Also realizing a capital gain after 30th June 2009 will defer tax on the gain by 12 months and can also be an effective strategy to extend the holding period of the asset so that a 50% discount can be applied where the asset is held longer than 12 months.

Importantly income needs to be ‘earned’ before it will be returned as assessable income. This was highlighted in the *Arthur Murray case* where although payments had been received, they did not represent income until the services required for payment had been performed.

In practical terms the decision in the *Arthur Murray case* may allow business taxpayers who receive income in advance to defer the recognition of that income until the services are actually provided. Business taxpayers who want to apply the principles in Arthur Murray must ensure they have a refund policy (whether legally enforceable or not) and the prepaid income is separately recognized in their accounts. Some common examples of services to which the Arthur Murray principle may apply include the following:

- Professional services (e.g. accounting services and legal services)
- Music lessons
- School tuition
- Driving lessons
- Cleaning services

It is important to note that the principles espoused in Arthur Murray are generally only relevant to those taxpayers who account for their income on an accruals basis. As such, any business taxpayers who provide professional services and recognize their income on a cash basis generally cannot benefit from the Arthur Murray case.

Small Business Entities

Tax planning opportunities for Small Business Entities ('SBE') are more abundant than for non-SBE taxpayers, as more concessions can be claimed. Expenditure can be accelerated and prepaid.

In broad terms an entity qualifies as an SBE where their annual turnover is less than $2 million. Under the SBE rules, a business taxpayer is not required to make a formal election to access the range of small business tax concessions.

A positive feature with the SBE concessions is the ability of an SBE business taxpayer to claim a deduction for all business expenses on an **incurred** basis, regardless of whether the taxpayer recognizes income on a cash or accruals basis. It is therefore possible for an SBE to confront a situation whereby they recognize income purely on a cash basis and, yet, deductions can still be claimed on an incurred basis.

Small Business Entity – Cash or Accruals Basis Accounting Method

Entities with income who qualify as a small business entity are now able to use the most appropriate method of accounting, be it cash or accruals basis. Small Business Entities are no longer required to only use the unique STS accounting cash method as was the case prior to 1 July 2005. Under that method income was recognized when received and deductions were deductible when paid. However, there is the choice to continue to use this 'cash' basis for recording income and expenses where the business was in the STS during 2006/07 and continually used the cash basis prior to 1 July 2005.

Under the accruals basis income is taxable when an invoice is raised, whereas under the traditional cash basis, income is not taxed until it is received. Under either system you may claim for expenses incurred, whether or not they have been paid by the end of the tax year.

Checklist for Accelerating Expenditure for SBE Taxpayers

*1. **Maximise depreciation deductions***

Depreciable assets costing less than $1,000 can be immediately written off. Other assets are automatically pooled and depreciated at accelerated rates.

*2. **Staff salary and wage expenses***

The gross salary amount that is payable to an employee for the number of days worked up to 30th June 2009 (but not yet paid) is an accrued salary expense which can be claimed as a tax deduction for the 2009 income year.

*3. **Staff bonuses***

A tax deduction can be claimed where a business is definitely committed to the payment of a staff bonus as at 30th June 2009.

*4. **Directors' fees***

A company is entitled to claim a deduction for directors' fees it is definitely committed to paying at 30th June 2009. The effect of the accrual is that the company claims a deduction for the directors' fees in the current year and the director is **not** required to include the amount in their income tax return until the amount is actually received.

*5. **Commissions***

Where an employee or third party is owed a commission payment but has not been paid as at 30th June 2009, the accrued amount can be claimed as a tax deduction.

*6. **Superannuation Contributions***

An SBE taxpayer can claim a deduction for superannuation contributions in the year the contribution is **actually made** to the superannuation fund, regardless of whether the contribution relates to an employee or for a self employed taxpayer.

7. ***Rent***

In most cases rent will be payable in advance and this means that most businesses will be unable to accrue any outstanding rental expenses for the 2009 income year. However to the extent that rent is paid in arrears, that part that has accrued to 30th June 2009 may be claimed.

8. ***Interest***

Any accrued interest owing on a business loan that has not been paid as at 30th June 2009, can be claimed as a deduction. This is assuming the interest is incurred as at 30th June 2009.

9. ***Repairs, legal advice, advertising, tax agent fees etc.***

The cost of deductible goods or services which have been invoiced/billed (i.e. incurred) but not paid for at 30th June 2009, can be claimed as a deduction in the 2009 income year.

Prepayment Rules for Taxpayers

Small Business Entities and non-business individuals are able to claim an immediate deduction for certain prepaid business expenses irrespective of cost where the payment covers a period of 12 months or less that ends in the next income year.

Other business taxpayers must apportion these prepayments over the relevant period covered. However for all taxpayers, if the prepayment is under $1,000 it is immediately deductible, regardless of the period it relates to. This expenditure is excluded from the prepayment rules.

Year end prepayments checklist

1. ***Lease payments***

Consider prepaying the lease payments on business assets such as non-luxury cars and office equipment.

2. ***Car registration***

Consider paying deductible annual car registration fees by 30 June 2009.

3. ***Rent***

Consider prepaying rent on business premises.

4. ***Insurance***

Consider paying annual (deductible) insurance premiums by 30 June 2009. Where an annual premium is paid periodically (e.g. monthly), consider prepaying some or all outstanding premiums.

5. ***Interest***

Where there are outstanding business loans, overdrafts or other finance facilities, consider organizing with the financier to prepay interest or to be charged interest in advance.

6. ***Business trips***

Consider paying for business travel costs (e.g. airfares, accommodation and other costs) in connection with a business trip prior to 30th June 2009.

7. ***Seminars, conferences and training***

Consider booking and paying (by 30 June 2009) for a training course, seminar or conference that will take place after this date.

8. ***Subscriptions***

Consider paying (deductible) annual subscriptions by 30 June 2009. Where annual subscriptions are paid periodically (e.g. monthly), consider prepaying some or all of the outstanding subscriptions.