Semmens&Co.
Chartered Accountants

9 TAX TIPS THAT COULD SAVE YOUR BUSINESS THOUSANDS

PHONE : 03 8320 0320 **EMAIL** : INFO@SEMMENSCO.COM.AU **ADDRESS** : SUITE 3, 200-202 BUCKLEY STREET, ESSENDON VIC 3040

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Introduction

Tax isn't necessarily a bad thing

Paying tax is not necessarily a bad thing. Taxes are the way in which we, as individuals, contribute to society and important infrastructure like hospitals, roads, schools and services, and Medicare.

If you've ever travelled to a third world country, you will understand how valuable and important this is to our community – and how wealthy we truly are to have access to these important community assets in Australia.

But most importantly, paying tax means you're making money. And the more you make the more you contribute to the community.

The difficulty is that for most businesses, tax is a significant outlay – so it makes sense to take steps to ensure you pay the right amount.

Australia has a long history of tax minimization tactics – activities primarily focused on reducing tax. For many businesses, the end of the financial year spurs a spending spree, aimed at minimizing tax. Business leaders get caught up in the notion of 'minimizing' and, in the effort to save a few dollars, perversely end up outlaying more which can land them in hot water with a direct impact on cash flow. But to what aim? The most a company will recoup on tax minimization spending is 27.5 to 30c in the dollar (depending on turnover and income generation type) (excluding overseas multinationals) and for individuals on the top marginal rate, this rises to 47c.

However, there are safer ways to ensure you only pay what you are required to pay, without avoiding tax. This calls for a sound tax planning strategy and a shift in mindset, to one of generating a return or acquiring appreciating assets.

The best strategy is to a) ensure your business focuses spending on a primary income-generating purpose and b) apply some simple strategies to maximize tax benefits.

> **Rule 1:** Reinvest money back into your business or purchase assets that will appreciate and generate an income (such as property or shares).
>
> **Rule 2:** Apply simple strategies to maximize tax benefits.

That said, here are some simple, smart and legitimate strategies every CEO, CFO and Director should be aware of to maximize tax benefits and reduce your tax bill.

> *Some people regard private enterprise as a predatory tiger to be shot. Others look on it as a cow they can milk. Not enough people see it as a healthy horse, pulling a sturdy wagon.*
>
> *- Albert Einstein*

1. Instant Asset Write-off

Strategy: Aim to purchase small business assets (costing under $30K) by 30 June.

The $30,000 threshold has been recently extended to 30 June 2020. This means that if you purchase an asset and it costs less than $30,000, you can write-off the business portion in your tax return for the relevant income year.

You are eligible to use simplified depreciation rules and claim an immediate deduction for the business portion of each asset (new or second hand) costing less than $30,000 if:

- you had a turnover less than $10 million (increased from $2 million on 1 July 2016); and,
- the asset was first used or installed ready for use in the income year you are claiming it in.

Assets that cost $30,000 or more can't be immediately deducted. They will continue to be deducted over time using the general small business pool (a rate of 15% in the first year and 30% every year thereafter).

You can also write-off the balance of the general small business pool if the balance (before applying any other depreciation deduction) is less than $30,000 at the end of an income year.

The recently endorsed instant assets write-off thresholds for assets purchased are:

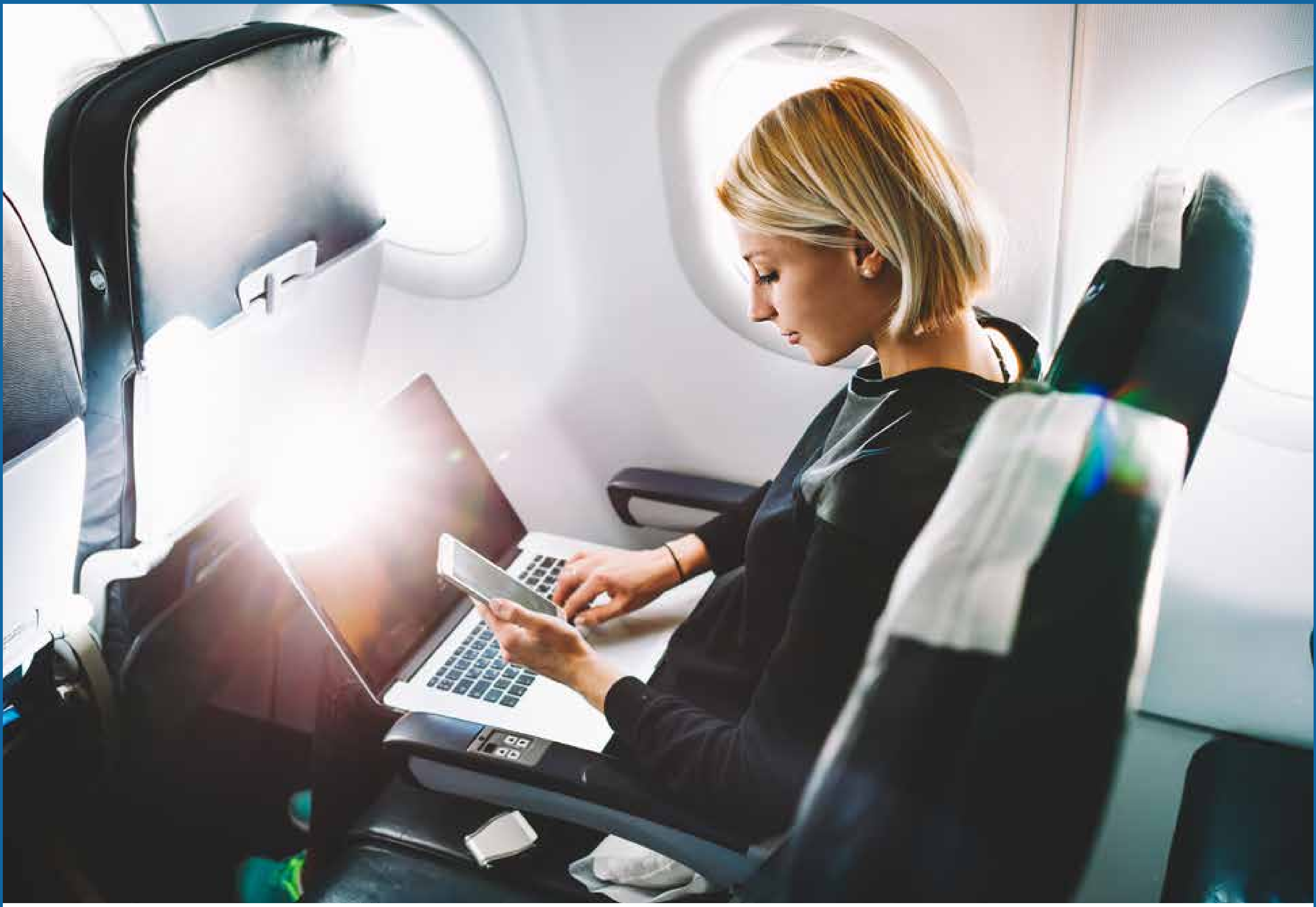
- 7.30pm (AEST) 12/05/2015 to 28/01/2019 is $20,000
- 29/01/2019 to before 7.30pm (AEDT) 02/04/2019 is $25,000
- 02 April 2019 to 30 June 2020 is $30,000

2. Assets costing over $30,000

Strategy: For assets over $30k, aim to turn them over faster.

If you have assets in the business, like cars or plant equipment, this strategy is worth considering. Aim to turn-over depreciating assets, over $30k in value, faster. When the assets are turned-over more frequently, this can help maximize the depreciation deduction and in turn, reduce the taxable income.

A lot of businesses will generally not have the cash reserves to outlay the acquisition of these assets upfront, but there are forms of finance that will help spread the cost of acquisition, whilst not having an impact on the deductibility for depreciation purposes. Further, whilst there will be an interest component for these facilities, these interest charges are also tax deductible.



3. Superannuation Contributions

Strategy: Maximize the concessional superannuation contributions limit each year.

Consider making concessional superannuation contributions, to the maximum value of $25,000 per annum (regardless of age).

This strategy can be applied for both salary sacrifice arrangements and making personal concessional superannuation contributions. Recent legislation changes have removed a 10%-of-income test for individuals that are employees up to the age of 65 (to be eligible to claim personal concessional superannuation contributions). However, those aged 65 to 74 will still need to meet a work test of 40 hours within a 30-day period to be eligible to claim personal concession contributions.

By maximizing the employer or personal concessional contribution amount (of up to a maximum of $25,000 per annum) it will lower the business's taxable income for the employer or an individual's tax burden, as concessional superannuation contributions are only taxed at 15%.

Another option is for businesses to consider providing salary sacrifice arrangements for its employees, as this will help reduce the overall PAYG withholding obligations.

4. Pre-Pay

Strategy: Pre-Pay Operating Expenses

If you are a base rate entity (aggregated turnover of less than $25m for 2017-18 year and 80% or less of assessable income is passive income), you can pre-pay certain expenses (before 30 June) and claim a tax deduction for them. A prepaid expense is expenditure you incur under an agreement for something to be done (in whole or in part) in a later income year.

The prepayment rules alter the timing of deductions for certain prepaid expenses that would ordinarily be immediately deductible in full in the year in which they are incurred, like rent (for a rental period that crosses two financial years).

NB: If you incurred expenditure for something that was to be done in full within this income year, it is not a prepaid expense and the prepayment rules do not apply. Other exclusions apply.

5. Asset Protection

Strategy: Have the right structures in place in order to protect your assets.

An asset protection strategy is extremely important when creating wealth but also when considering the tax implications.

As businesses grow, so do the income generating assets. In some circumstances, serious consideration needs to be given to the ownership of these assets. There are various options like, creating a separate entity to own the business assets, whereby the trading entity (the business itself) may lease, hire or license the assets from the separate entity. This ensures that the assets are protected from any potential contingent liability issues that may impact the trading business. This strategy is most commonly applied to motor vehicles, plant and equipment and, business real property.

Serious consideration needs to be given to the type of entity that will acquire and hold the assets, for example; a company is unable to access Capital Gain Tax concessions, however, a Trust and Self-Managed Superannuation Fund currently do have access to these concessions, 50% and 1/3 respectively. It is not uncommon for business real property to be acquired by a Self-Managed Super Fund, which helps build for retirement wealth, however there are strict rules surrounding some of these arrangements.

It is important to note that a holding entity strategy needs to be commercial and treated as an arm's-length arrangement, so having appropriate documentation in place is imperative when the entities are related and or associated.

6. GST Registration on a Cash Basis

Strategy: Account for GST on a Cash Basis.

If cashflow is going to be or is an issue, this strategy may assist. This strategy requires the business to account for its GST on a Cash basis, even though it may be accounting its year-end financial statements on a Non-Cash (accruals) basis (tracking account receivables and accounts payables). With this strategy the business will only remit GST on invoices that it has physically received payment for (including the GST component where applicable), rather than invoices issued for the relevant GST period.

However, it is important to note that when applying this strategy, the same tax rule will apply to claiming your business GST credits. The business can only claim input tax credits when physically paying the invoice of a vendor or supplier, that has a GST component, for the relevant GST period.

This strategy can be applied to businesses with an aggregated turnover of less than $10 million (your business's turnover and the turnover of closely associated entities) and provides better alignment of the Business Activity Statement liability with the cash flowing through the business.

7. Staff Benefits

Strategy: Issue staff benefits that are exempt

'Minor Benefits' are exempt benefits. A minor benefit is both: less than $300 in notional taxable value, and unreasonable to treat as a fringe benefit. In determining if the minor benefit exemption applies, you need to examine the nature of the benefit provided and consider various criteria – value, frequency and regularity of provision, and recording and valuation difficulties – before concluding whether the exemption should apply to a minor benefit.

Further, if the item is under $300, it may also be FBT exempt. However, in order for the benefit to be FBT exempt, it must be minor and infrequent. Monthly benefits will not pass this test, hence consider benefits that you would tend to give once a year.

Subject to limitations, a number of employee benefits are exempt from fringe benefits tax (FBT), including the following work-related items: portable electronic devices such as mobile phones, laptops, tablets, portable printers and GPS navigation receivers, computer software, protective clothing, briefcases and, tools of trade. From 1 April 2016, the exemption also extends to small businesses that provide employees with more than one work-related portable electronic device in an FBT year – even if the devices have substantially identical functions. The additional benefit is that they will also be tax deductible and an input tax credit can be claimed for GST purposes where applicable.

Any benefit arising from taxi travel by an employee is an exempt benefit if the travel is a single trip beginning or ending at the employee's place of work. Any benefit arising from taxi travel by an employee is also an exempt benefit, if the travel is both: a result of sickness of, or injury to, the employee; the whole or a part of the journey is between any place that is necessary for the employee to go as a result of the sickness or injury.

If you are a small business, car parking benefits you provide are exempt if certain conditions are met: the parking is not provided in a commercial car park, your gross total income for the last income year before the relevant fringe benefits tax (FBT) year was less than $10 million, or you were a small business for the last income year and you are not a government body, a listed public company, or a subsidiary of a listed public company.

8. Christmas Parties

Strategy: Plan Christmas events that attract minimal Fringe Benefits Tax.

It is extremely common for employers to reward employees for their hard work during the year by hosting an End of Year Party or Christmas Party. These functions will generally be either held on-site at the employer's place of business or off-site (e.g. at a restaurant). Further, it is not uncommon for there to be a mix of attendees being employees, customers or suppliers and potentially employee spouses.

The majority of the expenditure incurred at these functions is deemed meal entertainment. It becomes important then for the employer to review and identify all costs associated with these functions to ensure the correct Fringe Benefits Tax, Income Tax and GST entitlement is captured. Below is table of common function costs which confirm if they have the character of meal entertainment, not meal entertainment or recreation as each can have an impact of attracting FBT or not.

Type of expense	Meal Entertainment	Not Meal Entertainment	Recreation
Food and Drink	Yes		
Tips to Waiters and Waitresses	Yes		
Venue Hire		Yes	
Entertainers (Band or DJ)			Yes
Entertainment Gifts (Movie Tickets or Restaurant Vouchers)	Yes		
Non-Entertainment Gifts (bottle of wine, generic store voucher)		Yes	
Taxi Travel*	Yes		Yes

Note: an exemption can apply if the taxi travel is either from the employers place of business to the venue or from the venue back to the employers place of business.

The next step to determining the FBT, Income Tax and GST impacts, is to assess the meal entertainment costs. There are two methods, the actual method (which requires more detailed record keeping) or the 50/50 method. For example;

Party Time Pty Ltd is a SBE company and hosts a Christmas Party for staff and spouses at a local restaurant on a Saturday night. There was a total of 20 people, being 10 employees and 10 spouses.

Party Time Pty Ltd uses the actual method to value its meal entertainment for FBT purposes. The total GST inclusive cost of the function was $6,600. This comprised of food and drink (meal entertainment) and a bottle of wine (not meal entertainment) for each guest, as well as a gift of movie tickets for each guest (entertainment). Therefore, the total cost per head of the function was $330.00. Below is a table with further breakdown of the expenditure.

Description	Total Cost	Per Head Cost	FBT Taxable value	Income Tax Deduction	GST – Input Tax Credit
Food and Drinks	$4,840	$242	Nil	Nil	Nil
Bottle of Wine	$1,320	$66	Nil	$1,200	$120
Movie Tickets	$440	$22	Nil	Nil	Nil
Total	$6,600	$330	Nil	$1,200	Nil

In this case, the FBT, Income Tax and GST consequences of each of the individual benefits are as follows:

- FBT: As the per head cost of each benefit to attendees is below $300, Party Time Pty Ltd can access the minor benefit exemption (should all the conditions of a minor benefit be satisfied).
- Income Tax and GST: No income tax deduction for the food and drinks and movie tickets can be claimed, as they are deemed meal entertainment, and no FBT is payable on their taxable value ($nil), hence, the minor benefit exemption will more than likely apply.

As the bottle of wine is not deemed meal entertainment, an income tax deduction may be claimed for the GST exclusive cost, and an input tax credit on the relevant BAS, even though again, the minor benefit exemption applies.

Now, let's take the same scenario but use the 50/50 method to assess the meal entertainment for FBT purposes. With this method, 50% of the food and drink (meal entertainment), and movie tickets (meal entertainment) totals $2,640 and would be subject to FBT, tax deductible and entitled to an input tax credit of $240 for GST purposes. The remaining 50% of the total cost $2,640 would not be subject to FBT, no tax deduction and no input tax credit. The bottle of wine would not be affected by the 50/50 split method as it is not meal entertainment.

9. Log Books for Motor Vehicles

Tip: Keep a log book for each car, to reduce taxable income and FBT liability

Many taxpayers use their car for work related purposes. There are two methods for claiming motor vehicle expenses for individuals; cents per kilometer or the log book method.

Under the cents per kilometer method, the ATO prescribes a current rate of $0.68 cents per kilometer (for the 2018-19 year). It should be noted that this is capped at 5,000 km's per vehicle.

However, by keeping a log book, it can increase a claim substantially in an income year as the number of kilometers are not capped. Alternatively, the work-related kilometers travelled are divided by the number of total kilometers travelled for the year, multiple by 100. This work-related % can then be applied against the total running costs of the car (including fuel, insurance, registration, repairs and maintenance, depreciation, interest on finance). Therefore, it is beneficial to keep a record of your vehicle related expenses and apply the work-related % to determine a higher tax deduction.

When using this method, in the first year a log book must be kept for a continuous 12-week period and thereafter, can be relied upon for up to 5 years. It is important to ensure the log book is maintained correctly during this 12-week period by noting the opening and closing odometer readings at the beginning and end of the year as well as each trip, date of travel, description of the nature of the trip. There are a number of mobile apps and GPS trackers that can be used to assist with the record keeping requirements and provide comprehensive reports.

When a business owns a motor vehicle, the majority of the running costs (fuel, insurance, registration, repairs and maintenance etc.) are tax deductible and input tax credits can be claimed on the GST portion of those expenses. However, it should be noted, that when a car is used by an employee, and they use the vehicle for private purposes as well, it will attract Fringe Benefits Tax for the private use portion.

By keeping a comprehensive log book of the use of the vehicle by any employee using the vehicle, it allows you to calculate any potential FBT impact under the operating cost method.

Alternatively, if log books have not been kept, then the taxable value is calculated using the statutory formula method, which is currently a flat 20% of the base value of the car, irrespective of the business-related usage. Therefore, keeping a log book can significantly reduce the taxable value in an FBT year and the ultimate Fringe benefits tax payable.

It should also be noted that certain vehicles can be exempt from FBT, most commonly, a Ute or commercial vehicle, that is not specifically designed to carry passengers or those that have a carrying capacity of greater than 1 tonne.

> *The hardest thing in the world to understand is the income tax.*
>
> *- Albert Einstein*

Need further advice?

Maximising your tax benefits is pivotal to ensuring you pay only that which you owe.

Now that you understand the value of a good tax strategy for your business, contact Semmens & Co. for a review of your present position and the right tax strategies for you. Semmens & Co is a team of tax professionals, with experience in tax, accounting, bookkeeping, tax planning and strategy, with over 20 years experience in tax, accounting and technology.

Our services include:

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- ASIC Corporate Secretarial
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- Business Advisory
- Payroll
- Bookkeeping

Please contact us if you would like to schedule a free initial consultation or learn more about Semmens & Co. and our services.

Semmens&Co.
Chartered Accountants

Contact Us

PH: 03 8320 0320
A: Suite 3, 200 Buckley Street, Essendon VIC 3040
PO: PO Box 68, Essendon VIC 3040
W: www.semmensco.com.au

Mark Semmens CA
Principal Accountant
M: 0433 403 929
E: mark@semmensco.com.au

Daniela Semmens
General Manager
M: 0415 104 051
E: daniela@semmensco.com.au

Authors: Mark Semmens & Daniela Semmens
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Disclaimer

Mark Semmens is a fully qualified Chartered Accountant and Registered Tax Agent at Semmens & Co. Semmens & Co have compiled the below strategies to assist businesses understand the opportunities for maximizing tax benefits however, this should not be treated as advice.

The following is general in nature and may not be applicable to your business or personal situation and circumstances. The companies referred to in the examples are fictional and used for illustrative purposes only.

If you would like to understand the strategies best suited and applied to your business and circumstances, please contact Semmens & Co, for a free 1 hour consultation.

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