

2024 Small Business Tax Tips

WHAT IS A SMALL BUSINESS?

From a tax perspective, a small business is usually defined as one with an annual turnover of less than \$10 million, except in relation to the small business CGT concessions, where the turnover threshold is just \$2 million. To stop businesses splitting activities so they can slip under the threshold and gain access to the various tax concessions, the law stipulates that turnover needs to be calculated from the 'aggregated' amounts, which basically means annual turnover (gross income, excluding GST) of every 'connected' or 'affiliated' business.

SMALL BUSINESS AND TAX

The importance of small business is demonstrated by the fact the government gives the small business sector a break on a range of tax matters.

SKILLS & TRAINING BOOST (ends 30/6/24)

Businesses that have incurred external expenses for employee training from a certified training provider will be eligible for an additional 20% boost (deduction) on costs incurred (ex gst) from 29/3/22 to 30/6/24.

SMALL BUSINESS ENERGY INCENTIVE (ends 30/6/24)

This incentive is still to be passed (24/6/24). But it will be available retrospectively from 1/7/23 to 30/6/24 for the cost of certain assets and improvements to certain existing assets that use electricity or renewable energy (instead of fossil fuels). Bonus deduction is only eligible to assets first used or installed ready for use 1/7/23 to 30/6/24. (2024 Financial Year). Any asset purchased is eligible if it uses electricity, and is more energy efficient than a similar asset if being replaced or substituted, or if there is a similar asset that uses fossil fuels. The onus is on the taxpayer to be able to justify that the asset is eligible for the small business energy incentive. There is a large list of depreciation assets / expenditure which could be potentially

eligible, from electric split system air-conditioners, computers, mobile phones, fridge/freezer, Tradie Battery Combo Kits, Laptops, Kitchen Ovens for cafes/bakeries etc. The interesting one is – that solar panels and EV vehicles are not eligible – as the Government has already given many concessions for the businesses to purchase these assets. Of course these assets must be used in/for the business to be eligible.

SIMPLIFIED DEPRECIATION RULES / INSTANT ASSET WRITE OFFS

Small businesses have the option of using simplified depreciation rules when claiming a deduction for capital items, such as:

- Fixtures and fittings (such as shop or café fit-outs)
- Technology, such as laptops, computers, EFTPOS systems and security equipment
- Office furniture
- Motor vehicles such as utes, delivery vans and most cars (subject to the depreciation limit of \$68,108 for the 2024 year) and \$69,674 for the 2025 year).

Using the simplified depreciation rules, small business entities (SBE) can claim a deduction in full for assets that cost less than the relevant threshold. For the 2024 and the 2025 years, this threshold is \$20,000 or \$30,000 (*still to be confirmed 24/6/24*). After the 2025 year the threshold will reduce back to \$1,000.

Assets that cost the same or more than the relevant threshold can be included in a small business pool, which allows for a simplified calculations to work out the depreciation deduction. 15% first year 30% ongoing years.

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.

PRE-PAID EXPENSES / TAX PLANNING

A small business can also get an immediate tax deduction for certain pre-paid business expenses made before the end of the financial year. If a payment covered an expense that has gone into the new financial year (such as 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 to see if anything qualifies.

GST

Taking care of your GST obligations can also be simplified, as eligible businesses are only required to account for GST once payment is received (Cash Basis). You can also pay GST in instalments, and the ATO will work out for you how much the instalments are. Of course you can always pay money to your GST account at any stage and have credits there ready for you at BAS time. There are also quarterly PAYG Instalments that can be paid to help at tax time.

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.

The reliefs are available to businesses, which are small business entities (ie, they carry on a business and satisfy the \$2m turnover test) or where the net CGT assets of the taxpayer (plus its connected entities and affiliates) do not exceed \$6m:

The 15-year exemption:

Available where a taxpayer who is at least 55 years of age and is retiring disposes of a CGT asset that has been owned for a minimum of 15 years.

The retirement exemption:

A taxpayer may apply capital proceeds from the disposal of a CGT asset to the retirement exemption, up to a lifetime maximum of \$500,000 – as it is not necessary to actually retire, the concession can be utilised more than once.

The 50% active asset reduction:

The capital gain arising from the disposal of a CGT asset may be discounted by 50%, but there are specific rules about what qualifies.

The CGT rollover:

A capital gain arising from the disposal of a CGT asset may be deferred provided a replacement asset is acquired within a two-year period – the gain is deferred until disposal of the replacement asset.

DON'T BLUR THE LINES BETWEEN THE COMPANY'S MONIES AND YOUR OWN – DIV 7A

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". Div 7A Benchmark Interest rate for 2024 year 8.27% (up from 4.77%)

So, if you find yourself borrowing money from a 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.

Alternatively, enter into a complying loan agreement (Div 7a), complete with commercial interest and capital payments and a defined loan period.

Consider the tax consequences of the private use of company assets for less than market value, because this can also be caught by the deemed dividend rules. The amount of the deemed dividend is equivalent to the arm's length price that would have been paid for the use of the assets, less any amount actually paid for the use.

It's also worth considering transferring the asset to the shareholder in lieu of a cash dividend, a so-called "in-specie" dividend. Whether that's cost-effective will depend on the market value of the asset. Alternatively, if the shareholder has previously lent money to the company, the asset could be transferred to the shareholder as a repayment of that loan, subject to valuation.

THE GOLDEN RULE - KEEP RECORDS

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 ATO to verify transactions by providing supporting records, with the consequence that even "innocent" businesses can find themselves struggling to unable to provide the requested evidence.

AND 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. 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-of-pocket', and that the expense has been incurred to run your business.

HERE ARE SOME TAX DEDUCTIONS YOU MAY BE ABLE TO CLAIM:

ADVERTISING AND SPONSORSHIP

Costs to promote your brand and garner publicity for your business are deductible and can be claimed, as can advertising or sponsorship to sell 'trading stock' and to hire staff. Take care to ensure that the costs incurred do not fall within the definition of 'entertainment', which is not usually deductible.

BAD DEBTS

A debt that is unpaid and deemed to be a 'bad' debt is an allowable deduction as long as it was included as assessable income in the present or even a previous income year. If you trade on Cash Basis – there are no bad debts – as you haven't declared the income – as it hasn't been received.

BORROWED MONEY

Expenses incurred in order to get the borrowed funds can be claimed as a deduction, the proviso being that the money must be used to produce assessable income. These expenses can include legal costs, registration fees, valuation costs, fees to guarantee an overdraft and any commissions paid. But you may have to spread the deductions over more than one year, depending on the extent of the expenses, to cover the period of the loan. These deductions are quite separate from the interest actually incurred on the borrowed funds, which is also deductible if the borrowed money is used to produce income.

BUSINESS TRAVEL

Travel for business purposes can usually be claimed. Keep all receipts and your itinerary or diary, and of course airline tickets. Note the nature of the travel, its purpose, and where, when and for how long (and look out for any personal activities that are mixed in, as these expenses are non-deductible).

CAR EXPENSE DEDUCTIONS

You can claim a full deduction for any expenses your company incurs while running a vehicle, leased or owned, provided the vehicle is used only for business purposes. If your business operates as a sole trader or partnership, you can claim certain proportions of deductions for vehicle expenses, but they are subject to substantiation rules.

HOME OFFICE/WORK CLAIMS

If your work is done from home, or is partly home-based, you can usually claim deductions for expenses under either the actual cost method or the occupancy method. Expenses such as interest, telephone, insurance and a portion of running expenses like heating, lighting or cleaning. If you claim the home occupancy method (including interest/rates/taxes) – be aware that this can cause a CGT issue when you sell your principal home as well.

INSURANCE

Workers compensation insurance premiums are deductible, as are insurance costs for fire, business-use cars, public liability, theft and loss of profits.

REPAIRS, REPLACEMENT, MAINTENANCE

A deduction is available for the upkeep of machinery, tools or premises used to produce assessable income (provided they are not 'capital' costs). These deductions include things like painting, plumbing and electrical maintenance, upkeep to windows and fences, guttering and machinery maintenance. Generally it means fixing defects, not totally replacing an item, and does not include improvements or work done immediately after acquiring an asset.

SUPERANNUATION CONTRIBUTIONS

You can claim a deduction for a contribution made to your own super fund, although care must be exercised if you also have some earnings from employment upon which super contributions have been paid by your employer. Contributions to an employee's fund are deductible as long as they are paid on time. Employers legally must contribute to employees' super under the superannuation guarantee laws and from 1/7/24 all employees (over 18yr) are entitled to superannuation at 11.5% of their ordinary time earnings. Concessional super limit is \$27500 for the 2024 year and will increase to \$30000 for the 2025 year.

SALARY AND WAGES

Operating as a trust or a company means you can claim a deduction for salary paid to employees or to yourself provided the salary is in respect of duties connected with the business. Partnerships can't claim for salary paid to a partner, but a deduction is available for salary paid to other employees. Sole traders can't claim for salary paid to themselves, but if you pay other employees then this is also tax deductible.

TAX MANAGEMENT EXPENSES

Managing your business tax affairs can cost, and you can claim these as deductions. This includes paying a bookkeeper, having a tax agent prepare and lodge tax returns and activity statements, attending to a tax audit or the costs of appealing or objecting to an assessment.

TELEPHONES

For a telephone you use for business only, you can claim for calls and rental, but not installation. If the phone is used for both business and private calls, you're able to claim a percentage based on business usage.



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DON'T FORGET TO KEEP RECORDS

When it comes to running a small business, keeping on top of your paperwork may be the last thing on your to-do list. So, while you focus on running and growing your business, our team can help with getting your records in order and discovering the right deductions.

NEED HELP?

We can help you navigate the accounting and tax responsibilities that come with running a business. We can also advise you on the best structure for you to set up for your business – Company/Trust/Partnership/Sole Trader or even Self-Managed Super Funds.