Southside Tax Services
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2026 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.

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 (laptops, computers, EFTPOS systems, and security equipment)

Office furniture

Motor vehicles (such as utes, delivery vans, and most cars, subject to the indexed ATO Depreciation Car Limit of **$69,674** for the **2026 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. Parliament passed the Treasury Laws Amendment Act 2025, meaning the **$20,000 threshold officially applies for the entire 2026 financial year**. Furthermore, the Federal Budget announced plans to make this $20,000 threshold permanent moving forward. This has now been approved and implemented as law.
- Assets that cost the same or more than the $20,000 threshold can be included in a small business pool, which allows for simplified calculations to work out the depreciation deduction: **15% in the first year and 30% for 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 & PAYG INSTALMENTS

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.

🚨 IMPORTANT: THE NEW PAYDAY SUPER PENALTY SYSTEM

The most sweeping payroll change in decades begins on **1 July 2026**. Employers must ensure Superannuation Guarantee (SG) contributions are received by their employees' super funds within **7 business days of payday**.

Because the ATO will match Single Touch Payroll (STP) data against real-time fund reports, late or missed payments will immediately trigger the revised ATO Payday Super Guarantee Charge (SGC) framework. The financial consequences of falling behind include:

Daily Compounding Interest: The baseline SGC calculation includes nominal interest on the shortfalls, compounding daily at the General Interest Charge (GIC) rate.

60% Administrative Uplift: A mandatory penalty of up to 60% of the unpaid super and interest is automatically applied to cover enforcement costs. This uplift can be partially reduced if you have a clean 24-month compliance history, or reduced to nil through immediate voluntary disclosure before the ATO takes action.

25% to 50% Late SGC Fines: If you receive an official SGC assessment from the ATO and fail to pay it within 28 days, a late payment fine of 25% is applied, escalating to 50% for persistent non-payment. Note that these additional failure-to-pay fines are **not tax deductible**.

25% Choice Loading Penalty: Failing to correctly check and send contributions to an employee's correct chosen or stapled fund adds an extra 25% charge (capped at $1,200 per notice period).

Note: The Small Business Superannuation Clearing House (SBSCH) shuts down permanently on 30 June 2026. You must move to a compliant, direct electronic clearing channel before your first July 2026 payroll run to avoid processing delays that trigger these penalties.

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 (i.e., 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 - DIV 7A PRIVATE COMPANY LOANS

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".
According to the official ATO Division 7A Benchmark Rates, the benchmark interest rate has **decreased to 8.37% for the 2026 financial year** (down from 8.77% in 2025).
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 Division 7A loan agreement complete with commercial interest, principal 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.

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 and bank statements

Employee records (wages, super, tax declarations, contracts)

Vehicle records and logbooks

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 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.

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.