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CHARTERED ACCOUNTANTS

June 2017 edition

Towards Better Business

This newsletter is aimed at providing helpful information for small business owners and managers to increase profits, reduce risks and astutely save for retirement. *Empower your business to better your future!*

OUR OTHER PUBLICATIONS:

- Investment Property Newsletter
- Self-Managed Super Fund Newsletter
- Business valuation Newsletter

NEWSLETTER CONTENTS

TOP FIVE GST MISTAKES

As we see mistakes that occur when preparing the GST section of a Business Activity Statement (BAS), we thought it worthwhile to outline some so you know to avoid them.

1. Double dipping on GST – claiming GST on an asset financed with a loan and also claiming GST on the loan repayments. For most loans, including hire purchase and chattel mortgages, there is no GST in the repayments or balloon payments.
2. Claiming GST on all expenses – not all expenses include GST. Typical expenses that do not include GST are bank charges/fees, company ASIC fees, interest expense, donations to Deductible Gift Recipients and, for now, purchases under $1000 from overseas (typically over the internet).
3. Claiming GST on independent contractors not registered for GST. Don't assume the business you have contracted to provide a service is GST registered. Some businesses are not required to register for GST because their annual income is below the GST registration threshold. If in doubt, conduct an internet search on ABN lookup . This will state if the contractor is registered for GST. If the contractor does not have an ABN, you will need to deduct "No ABN withholding" tax from their payment, report the amount in your BAS return and pay the withholding tax to the ATO.

4. Claiming GST on the total price of purchases where only part of the price contains GST. For example, insurance premiums and [VicRoads] motor vehicle registration renewals have a government stamp duty component that does not have GST attached to it.
5. Claiming GST on private purchases - Items paid from business funds used for non-business (personal/private) purposes don't qualify for claiming back the GST. For example, a business can't claim back GST on a laptop which is used by a child in their school studies.

A recommended measure to avoid these mistakes is not solely relying on bookkeeping software to calculate GST. When entering transactions, the default GST calculation should always be cross-checked with the supplier's invoice and, if necessary, the default GST amount should be over-ridden with the amount on the invoice.

Why take the risk of getting things wrong? Chieftains offer a "GST health check" service. Contact us for more information.

YEAR-END TAX PLANNING

We do understand that none of us get excited about paying tax and less is always more attractive than more. The danger however is, that some business owners lose sight of why they are in business… and that is to make money (profits), and when this happens, tax will be payable. Having said that, we fervently believe business should actively manage all their expenses to achieve high performance. Tax is one of those expenses. With the financial year ending soon, it's appropriate to now review your tax exposure so action can be taken before 30 June to minimise it.

We have outlined below some strategies you can explore and, where appropriate, implement. Don't forget that tax law is complicated and the devil is in the detail, so seek specific

advice that considers your specific circumstances before acting on transactions.

The first thing you need to do is prepare a rough estimation of taxable income of the business for the year. This need not be a complicated exercise. Add up your business expenses for the year (excluding capital purchases, non-deductible and personal items) and deduct that amount from total sales for the year. The resultant figure then becomes a good starting position to work out which strategies you will use and to what extent.

Timing - look at deferring income until 1 July.

Prepaid expenses - pre-pay next year's expenses where possible, for example, insurance, annual business subscriptions and rent.

Interest on loans - ask your lender if you can get a discount for prepaid interest.

Bad debts - review monies owed to you and write-off amounts that are not recoverable.

Trading stock - typically, stock is valued at cost. If the market selling or replacement value is lower, you can opt to use the method that produces a lower value. This will have the effect of decreasing your profit.

Obsolete stock - review your inventory for any obsolete items that should be written-off.

Obsolete plant and equipment - review the asset/depreciation register for any obsolete items that should be written-off.

Repairs & maintenance - bring forward repairs and maintenance otherwise scheduled for July or August and carry them out before 30 June. Be careful as tax rules define repairs and maintenance different to ordinary use of the term. If in doubt, check with us as the expenditure could be considered a capital item and non-deductible.

Capital expenditure - bring forward the purchase of a qualifying item of plant or equipment you are planning to buy next year. Presently there is a special tax concession that allows small business to get an outright deduction for purchasing/installing assets under $20,000. Otherwise, under normal tax rules, the cost is claimed over several years. Don't buy an item because you want a deduction. Make sure there is a good business case that supports its acquisition.

Employee payments - if your last payroll payment for employees' wages, salaries, commissions and bonuses falls on the first day or two of July, consider paying them by 30 June.

Super contributions - ensure employee super contributions are paid (and received by the super fund) by 30 June to qualify for a deduction in the current year.

Deduction for a payment to you! - consider making a payment to your "future self" by making a concessional contribution to your super fund before 30 June. It's money you can access when you retire. Not only are you obtaining a tax deduction now, your super fund is only taxed at 15% on your contribution. This is a complex area, so seek advice from us before you commit.

Capital gains/losses - if you have carried forward capital losses, consider whether there are any capital gains that can be realised in the current year to absorb those losses.

Do you have the right business structure? - there are differential tax rates across individuals, companies, trusts and super funds. If you are a sole proprietor and your business is growing, you should investigate the use of a different structure that will better manage risk and tax. It doesn't make sense to have your personal assets at risk and pay up towards 50 cents of your hard-earned dollars in tax when a better structure can avoid these problems.

Lodge on time - the ATO imposes late lodgement penalties for income tax and BAS returns not lodged on time, and that penalty isn't tax deductible. Pay attention to due dates and meet them.

The above is a self-service approach. Alternatively, we are more than happy to run a tax planning meeting with you during the month of June.

WHAT WILL 2017/18 DELIVER?

This is not a question that requires a crystal ball for the answer. The answer is, largely, what you want it to deliver.

With the new financial year weeks away, it's the perfect time to develop a financial plan for the oncoming year. After factoring anticipated or targeted sales and expenses, you will have a very good understanding of expected profit for the year. If you attach a cash flow forecast you will also have a deep

understanding of cash peaks and troughs during the year.

The benefits of undertaking a forecasting exercise are substantial, including:

- producing a frame of mind that helps owners and managers attack the oncoming year with a sense of enthusiasm because issues are thought through before the year starts,
- fosters an environment where you are in control instead of a knee jerk and poorly thought-out reaction in panic,
- clarifying if margins are correct,
- clarifies if the business can withstand financial downturns or upturns (yes, unexpected growth causes strain on business),
- clarifies if, and when, plant and equipment should be purchased,
- where the business needs a loan, it provides the financier with confidence the business will meet its repayment obligations,
- assists in staffing decisions such as, how many, when to hire or fire, wage increases, impact of commission or bonus structures,
- helps to confront specific issues, for example, the impact of increasing costs, such as electricity; do you know the extent your business can absorb extra costs and at what point your own prices must increase and by how much? Would the business be better off with a solar power system?
- helps to assess credit policies and the impact slow paying customers have on the business, and
- helps to understand the amount of GST and income tax payable, their due dates and cash available to meet these obligations.

Frankly, a financial forecast shouldn't be negotiable. Every business should do it as part of an annual business planning cycle.

With Chieftains, you have access to excellent assistance when it comes to preparing financial forecasts. We have a service that will produce forecast profit and loss, balance sheet and cash flow information divided into monthly, quarterly, half yearly and annual intervals. Additionally, our service allows sensitivity analysis. That is, for example, what would be the impact on your business if sales were to decrease by 5%, 10%, 20% or more? Likewise, what would the impact if costs increased unexpectedly?

You could try the exercise yourself but, do you have the time? Plus it is near an impossible task to produce using spreadsheets. A financial forecast prepared independently by us will help you overcome the compulsion to contrive results that may not reflect reality. Being realistic and achievable are critical parts of the forecast process.

LEGISLATION & OTHER CHANGES

Although the federal budget was released on 9 May 2017, this section won't cover the changes as they are merely proposals subject to the political negotiation process. We will report on those changes at a later time when it is clear they are going to be implemented. In the meantime, we report the following changes:

Corporate tax rate reduction: From 1 July 2017, the small business entity corporate tax rate will continue at 27.5% which commenced on 1 July 2016 (a 1% reduction from 28.5% in the previous year). From 1 July 2016, the 27.5% tax rate also applies to companies with an annual turnover from $2 million to $10 million.

Franked dividends: In line with the corporate tax rate changes, from the 2016/17 tax year onwards, the maximum franking credit that can be allocated to a dividend will be based on the applicable company tax rate. That means franking credits on dividends paid by a small business company from 1 July 2016 will be capped at 27.5%.

Super guarantee non-compliance: The government has established a new working group to deal with superannuation guarantee non-compliance. As part of their initiatives, the ATO will be conducting increasing audits to ascertain non-compliance. Presently, 70% of the ATO's super guarantee audits stem from ex-employee complaints.

Maximum concessional super contributions: From 1 July 2017, concessional super contributions will be capped at $25,000 irrespective of age.

Ride-sourcing: A recent court case has confirmed travel services, such as Uber, to be "taxi travel" which means all such drivers must have an ABN and register for GST irrespective of how much they earn (i.e. they do not have the benefit of the GST registration threshold).

Lump sum payments to healthcare practitioners: It's common for a healthcare practitioner (doctor,

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dentist, physical therapist, radiologist or pharmacist) to receive a lump sum from a healthcare centre to encourage them to start or continue work from their centres. The ATO is concerned with the tax treatment of these payments and has issued a fact sheet suggesting the payments are ordinary income and not a capital gain. Practitioners that are planning to enter into such an arrangement should seek advice from us first.

LIFE'S TOO SERIOUS

"You're the King — you're not in *any* tax bracket."

TAX TIMELINE

21 July 2017: Lodge and pay June 2017 monthly activity statement

28 July 2017: Lodge and pay quarterly Business Activity Statement (BAS) for April to June 2017

14 August 2017: PAYG Payment summary annual report (where tax agents aren't involved in preparing the report)

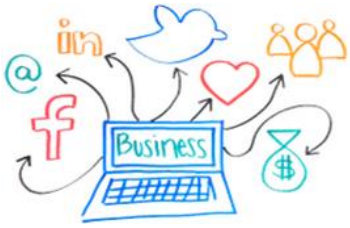
21 August 2017: Lodge and pay July 2017 monthly activity statement

21 September 2017: Lodge and pay August 2017 monthly activity statement

30 September 2017: PAYG Payment summary annual report (where tax agents are involved with preparing the report)

OUR SMALL BUSINESS SERVICES

- Accounting solutions
- Audit insurance
- ATO audit representation
- ASIC agent service
- Business management
- Business plans
- Business valuations
- Establishing business
- External CFO services
- Financial & cash flow forecasts/ budgets
- Financial statement preparation
- Purchase of business assistance
- Sale of business assistance
- Succession planning
- Tax returns & tax advice & planning



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