Tax planning strategies for small business owners.

The end of financial year is a perfect time for business owners and their finance teams to get on top of annual tax planning.

The benefits of tax planning

The benefits of effective tax planning are numerous:

- Maximise your returns
- Enhance your cashflow
- Reduce your tax liabilities
- Proactively consider tax liability funding options
- Address tax issues before they become a problem
- Capitalise on tax incentives

If planned well and combined with a company tax rate that has gradually lowered (currently sitting at 25% for the 2024-2025 income year) business owners should have more funds to reinvest in the future success of their businesses, despite current challenging economic times.

Below are a number of key considerations and strategies to assist your tax planning process.

Managing tax liabilities

It's critical for small businesses to keep on top of their tax liabilities and obligations. The main tax liabilities to consider include:

- **Income Tax:** Based on the net profit of your business, your tax liability will vary depending on your business structure – whether you are a sole trader, partnership, trust or company.

- **Capital Gains Tax (CGT):** Tax is payable when you decide to sell business assets or shares for a profit. It's also worth remembering that CGT is triggered on the signing of a contract not when settlement actually occurs. However, if a capital gain has been made during the financial year, and in the absence of carried forward capital losses and/or tax losses, investments that are in a loss position may be crystalised to offset that capital gain.

- **Goods and Services Tax (GST):** Businesses registered for GST are obliged to charge this tax on the goods and services they sell or supply.

- **Pay As You Go (PAYG) Instalments:** This system helps business owners meet their obligations via making regular payments towards their expected annual income tax liability. If the taxable income of your business has decreased from a prior year, then you may want to vary the instalments of tax or claim credits for prior quarters' tax to assist you with cashflow.

- **Fringe Benefits Tax (FBT):** If you provide certain benefits or incentives to your employees in addition to, or as part of their salary, you are required to pay Fringe Benefits Tax.

Staying on top of the above and planning ahead can help reduce your overall tax liability.

Instant asset write-offs

The Australian Taxation Office (ATO) allows small businesses to instantly write-off the value of business assets (including vehicles, equipment and technology) that cost less than $30,000 for businesses with an aggregated turnover of less than $50 million.

These rules apply to assets purchased and used, or installed ready for use, between 1 July 2023 and 30 June 2024.

Prepay expenses

If you operate a small business with an aggregated turnover of less than $10 million, you can prepay up to 12 months of expenses. This means bringing forward up to 12 months of tax deduction.

Small business skills and training boost

This incentive is also available to businesses with aggregated turnover of less than $50 million.

Eligible businesses can receive an additional 20% tax deduction for the cost of external training courses delivered to employees by registered training providers.

Small business energy deduction

The federal government's small business energy incentive as part of their 2023-24 Federal Budget, allows businesses with an aggregated turnover of less than $50 million a 20% bonus deduction for expenditure that supports electrification and the more efficient use of energy.

The additional deduction is available for expenditure up to $100,000 and therefore, the benefit is capped at $20,000 per business.

Superannuation – employee and business owners

Consider paying your staff super for the June 2024 quarter (April 2024-June 2024) prior to 30 June 2024 to be eligible to claim a tax deduction for this financial year.

However, it's important to know when a superannuation payment is considered 'paid'. 'Paid' is defined as when the employee's superfund receives the payment.

Business owners may also consider making concessional superannuation contributions or additional salary sacrifice contributions up to the superannuation cap of $27,500 for their own personal tax benefit. You can claim the deduction as a business expense and have it earn income in your superfund paying tax at 15% instead of 25% in a company.

Write off bad debt

When management deems a debt cannot be recovered, you can claim a tax deduction in the year the debt is written off, ensuring you do not pay tax on funds you will never receive.

Obsolete stock

When management deems that old stock is obsolete and therefore has no residual value, the cost can be written off and a tax deduction can be claimed for the equivalent amount.

Ensuring you keep up-to-date with your annual stock takes is critical for your tax purposes.

Division 7A loans

With a Division 7A loan there are minimum payment requirements (principal & interest) that need to be satisfied annually until the loan is fully repaid. These minimum repayments can be funded by way of a cash payment or set off through the declaration of a dividend.

Consider making cash payments prior to 30 June to help avoid declaring a dividend that may result in an increased tax liability. It's also worth noting the significant increase in the ATO's benchmark interest rate from 4.77 per cent in FY23 to 8.27 per cent in FY24.

Next steps

The above is just a snapshot and guide to overall small business tax considerations and strategies. To maximise your tax position it's important to discuss your individual business circumstance with a trusted advisor.

How Falanga & Co can help

If you are interested in exploring tax planning strategies for your business, contact our team today on **1300 325 264**.

If you are new to Falanga & Co, please visit our **website** to schedule a discovery call, and let's discuss how we can best support you.