# EVERYTHING YOUR BUSINESS NEEDS TO KNOW FOR END OF FINANCIAL YEAR

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## Introduction

There's nothing like tax time to suck the momentum out of running a business.

Unfortunately, it's something we all have to deal with. But, if it's going to happen regardless, why not try everything in your power to make it as easy as possible?

That's what this ebook is for. A handy guide to help you through a tough time of year. Not just so you can minimise your tax bill, but so you can go deeper and really foster structural changes that set your business up for success.

It's easy to get bogged down in the admin. But think of it this way: a fresh financial year is an opportunity for a fresh start.

This is an opportunity to step back and look at what you can do to really change your processes and strategy.

In this ebook, we've brought together the best tips to help you manage the EOFY blitz: because if there's one thing that's worse than getting your return done, it's getting a tax audit.

Nobody wants that.

So do the smart thing. Read through this ebook, understand your tax obligations from end-to-end, and start thinking about how you can transform your business for the better.

*Eloise Keating*
*Editor, SmartCompany*

## The 14 top tax tips you need to know

It can be tempting to rush a tax return out the door so you can get back to doing business. But it's a mistake to give up an opportunity to seize whatever money you can: it can mean the difference between buying a piece of equipment or holding on for another year.

Just remember: always speak with your accountant or tax professional before making decisions based on tax advantages.

### 1. Pay everything upfront now

Do you have any annual expenses that you can pay right now (pre-June 30), for the full year? Life insurance, business insurance, memberships and subscriptions are all great choices. If you pay upfront you'll get to deduct them immediately, rather than in the new year. If you're going to buy them anyway, you might as well get as much benefit as you can – and soon!

### 2. Push money into the new year

By contrast, if you can push money into the new year then you should. Avoid invoicing and collecting cash as much as possible so that you minimise your immediate tax bill.

### 3. Buy the equipment you need

The ability to claim a deduction for assets and equipment isn't available unless you have that plant and equipment purchased and installed by the end of the financial year. So make sure if you're claiming the write-off, that the equipment is ready to use. It can't just be sitting in a box somewhere!

### eInvoices

Are you doing business with federal government departments? You should know the government is developing a standard for digital invoicing, which could deliver benefits of up to $28 billion over 10 years.

The basics: e-invoices send purchasing and payment information between suppliers and customers, and they're automatically added to tools like accounting software. With the federal government backing a standard, we could see this type of tech in the next couple of years. Stay sharp.

### 4. Value trading stock appropriately

Are you a retailer, or operate a business with trading stock?

Then you can save money during your regular stocktake. Each year, businesses with trading stock need to value their inventory. You can choose a method to do this: the year-end cost method, the market selling value method, or the replacement value method.

The secret? You can choose a different method every year. So work with your accountant to make sure the method you use to value your stock gives you the best return.

### Taxable payments reporting

In the past few years, the ATO has ordered several industries to start making reports to the ATO about every payment they receive.

The rules already exist for these industries, which will need to start reporting from 1 July 2018:

- Construction
- Courier
- Cleaning

This year, the government has extended those laws to new industries:

- Security providers
- Investigation services
- Road freight transport
- Computer system design (and related services)

The reporting for these industries doesn't start until 1 July 2019 – but if you operate in these markets now is the time to get your systems in order.

## 5. Write off your bad debts

Do you have money owed to you that you haven't been able to get back?

The ATO allows you to rule off bad debts. But watch out: there are some rules you need to follow here. And while you don't need a heap of paperwork to show that you haven't been able to get your money back, the ATO does say you need a written record of how you've tried to retrieve the money.

As Ganrid Consultants explains, a "bad debt has to be written off in the year of income before a bad debt deduction is allowed". That is, you can only claim a deduction for a bad debt in the same year you decided that it was irretrievable.

As always, best to speak with your tax professional before writing debts off.

## 6. Sort out your trusts

For any business operating a trust, your distributions must be agreed upon and put in writing before the end of financial year. The ATO is particularly harsh on this so make sure your documents are all sorted.

Additionally, if you're the beneficiary of a trust you need to remember the tax distribution you'll receive.

## 7. Make sure your documents align

The sheer amount of data matching conducted by the ATO is enough to make your head spin. As a result, if you think they haven't got any data on you – think again. That means all your data needs to add up, including the lodgements you've made through BAS throughout the year. If there's any discrepancy between the data you share with say, state lodgement offices, and the ATO itself, there's going to be a problem.

## 8. Travel deductions

This is another area the ATO has cracked down on. If you're claiming travel expenses for your business, then make sure you have the right documentation. And if you're claiming car mileage, you need to use the right method and have it logged appropriately.

One area where people trip up is combining work with personal travel. If you travel for a conference then take a holiday, you can only claim a deduction for the work-related portion.

## 9. Get your receipts ready

It's easy to get into the habit of sticking your receipts in a shoebox somewhere, but that will come back to bite you. Too many business owners assume they have paperwork somewhere, but in reality it's been thrown away. Unless it's been seen, checked and stored, you shouldn't be claiming that expense on a return – whether it's for your personal or business expenses.

## 10. Know what the ATO is going after

Each year, the ATO sizes up a few industries it thinks need a bit of extra attention. It pays to be aware of what those industries are.

This year, the ATO has said it's focusing on dodgy work-related deductions, particularly related to clothing.

"Last year around six million people claimed work-related clothing and laundry expenses, with total claims adding up to nearly $1.8 billion. While many of these claims will be legitimate, we don't think that half of all taxpayers would have been required to wear uniforms, protective clothing, or occupation-specific clothing," the ATO said in June 2018.

And no, a suit doesn't count as a uniform.

### 11. Division 7A

Any business dealing with Division 7A rules should speak to an accountant. This area of the law basically covers loans made from a business to its directors, but it's incredibly complex:

"A Division 7A deemed dividend is generally unfranked. Given this, the most effective way to provide a payment or other benefit to a shareholder or their associate is to pay it as a normal dividend (with a franking credit if available) and for the shareholder to include it in their assessable income," says the ATO.

The ATO puts a lot of effort into making sure these are legitimate and documented correctly. Speak with your tax professional to make sure yours are legitimate.

### 12. Self-education expenses

The ATO allows for deducting expenses related to self-education, but here's the key catch: it needs to be related to your work. You can't just pick a course on anything and claim it, so ensure what you're learning has some sort of impact on your main work or business.

### 13. Professional library

Did you know you can deduct expenses for maintaining a professional library? But like self-education expenses, these need to be related to your actual job. Buying a bunch of fiction books won't cut the mustard.

### 14. Do the deduction test

If you have any trouble determining whether an expense can be deducted from your tax, just do the test the ATO outlines on its own website:

1. Have you spent money on the item?

2. Was the item purchased for use in a business and related to work?

3. You must have a record to prove the deduction.

If ever you're confused, just go back to those three rules.

## The biggest changes you need to know about this year

The end of the financial year isn't just about tax. There are several key changes you should review not just for your tax, but to make sure you're completely compliant in 2018 and beyond.

Read about them here and make sure you're up to scratch.

### Crackdown on the cash economy

Are you sending large cash payments in your business? Watch out: From 1 July 2018, the government is now banning cash payments above $10,000 between businesses. While most SMEs will be operating electronically these days, there are always businesses caught in the cross-fire of these types of decisions, so make sure you're up to speed and only transmit funds electronically.

### Single Touch Payroll

This is a massive change that will affect millions of businesses. Starting from 1 July 2018, businesses with 20 or more employees will need to follow new single touch reporting rules.

These mandate that when you pay salaries and wages, you need to report PAYG withholding and super information at the same time, electronically, straight to the ATO. This means you don't need to distribute payment summaries at the end of the year – so there's some benefit for you.

Think back to April 1 of 2018. Did you have 20 or more employees? Then you need to start using single touch payroll. If you had fewer, it's voluntary this year – but doing it will give you heaps of benefits and prepare you for 1 July 2019 when Single Touch Payroll will be mandatory for all.

From 1 July 2018, whenever you pay wages or salaries, you need to report to the ATO at the same time. Thankfully many online accounting software providers have already updated to take care of this, but you need to make sure yours has.

### Minimum wage and tax bracket changes

The minimum wage usually changes every year and this EOFY is no exception. The Fair Work Commission ruled this year the minimum wage will rise to $719.20 per week (an increase of 3.5%).

Also remember the government is raising the threshold for the 37% tax bracket from $87,000 to $90,000. Again, this means you need to make sure your accounting software is updated with the latest tax tables.

### Company tax threshold change

Most businesses would be aware the government has a plan to reduce the corporate tax rate over 10 years. This was already put into motion last year, with a 27.5% tax rate for any incorporated business earning less than $25 million a year.

The 2018-19 financial year will see that threshold rise to $50 million. So that means if your business earns under $50 million, you'll benefit from the 27.5% tax rate. Make sure you prepare for that in your planning.

### A whole bunch of threshold changes

The ATO sets a salary limit each year, at which point anyone earning over that amount can no longer claim unfair dismissal against their employer. The threshold for the 2018-19 year will rise from $142,000 to $145,300.

The ATO has also changed several thresholds relating to Fringe Benefits Tax (the FBT year runs from April to March). These often change from year to year, so speak with your tax professional about these specific rates and how they might affect your business.

### R&D incentives

The R&D tax incentive will change significantly in the next financial year. Now, the scheme is based on how much money you spend on R&D as a percentage of your overall budget.

Sound confusing? It is a little. This is how it shakes out for any type of business, with the old rates compared to the new:

#### *Companies earning more than $20 million:*

**Old rates**

Businesses were able to claim a 38.5% non-refundable tax offset.

**New rates**

For companies spending 0–2% of overall expenditure on R&D, they can claim a rebate of four percentage points above the marginal company tax rate.

The rates are 6.5 points for between 2–5% of overall spending, 9 points for 5–10% and 12 points for 10% and above. The maximum amount of R&D spending to be offset will rise from $100 million to $150 million.

#### *Companies earning less than $20 million:*

**Old rates**

Businesses were able to claim a 43.5% non-refundable tax offset.

**New rates**

The offset is a premium of 13.5 percentage points above a claimant's company tax rate. Cash refunds are capped at $4 million per year, and offsets that can't be refunded will be carried forwarded as non-refundable tax offsets

If you've been thinking about claiming an R&D tax credit, then the 2017-18 year will be the last for which you can claim the old rates. Be sure to speak with an expert about how you could claim some money back: businesses often find they're able to claim expenditure they otherwise assumed was ineligible. Don't leave anything to assumptions!

### Instant asset write-off

The government has extended the $20,000 instant asset write-off for another year. That means any plant and equipment that costs up to $20,000 can be written off immediately instead of on a deduction schedule.

However, like we mentioned earlier, the plant and equipment has to be installed and ready for use by the time the EOFY is over. So that means if you're deducting something for the 2017-18 financial year, it needs to be installed and good to go by June 30 2018.

Otherwise, it will have to be installed and deducted in the 2018-19 year instead. But given the write-off has been extended for another year, you can start your planning now.

### Changes to GST

There are a few significant changes coming to GST come 1 July, so best to be prepared. Here are the ones you should think about:

*GST on low value goods*

GST will apply to overseas sales of goods supplied to Australian consumers with a value under $1000.

*GST on property developments*

From 1 July vendors will no longer collect and remit GST on the purchase price of residential premises. Instead, the vendor must notify the purchaser in writing that the GST needs to be paid to the ATO and specify the amount that must be paid.


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## The tools that will make your EOFY easier

The end of the year is the ideal time to take stock of your processes and figure out how to make your business more efficient. We've put together a list of resources to help you do just that: take some time to make sure you set your business up for success.

### A digital system to keep track of your invoices

There is nothing worse than paperwork thrown everywhere in a shoebox. You know what's even worse? Being audited and not being able to figure out where those shoeboxes are. Keeping your receipts in a documented, digital system will ensure you're ready for any scrutiny that comes your way. Once you've digitised them, then you can store them away safely: with peace of mind.

### Project management software to keep things in line

One of the biggest pitfalls any business faces is the inability to track specific elements of a project as it continues. Ensuring you have a good project management system will expose any flaws in your way of working, whether it's Trello or something like Jira (you don't have to be a tech business to use them!) .

The major benefit of these programs is being able to break down a project into specific parts, then seeing where things go wrong – or right. Start experimenting before EOFY and you'll be a pro in no time.

### Starting your EOFY preparation throughout the year

Why put off EOFY preparations until June? This year, do something different: pop reminders in your calendar about preparing documents and other necessary items before 1 July. That way you'll have your organisation set, and instead of rushing last-minute you'll distribute the effort over 12 months. It'll be much easier for everyone.

Bonus points if you set up regular meetings with your accountant or bookkeeper.

### Making sure your online accounting software updated

Once you've got an accounting system in place, it won't work unless it's updated. Thankfully many online providers update these automatically, but it pays to make sure. Check with your provider if they're ready for Single Touch Payroll and other EOFY changes.

### Digitising all your documents

Paper is old school. Move into the cloud with a tool like Dropbox or Google Docs, then just keep everything online. It isn't 2008 when downtime or online connectivity was a bit dodgy, now these tools are complete and full alternatives to traditional software.

### Having a strategy day

What better way to start the new financial year than with a day outlining your goals? Remember, your business is about achieving long-term goals, and you can't ever think about them with short-term attitudes. Get away from the office, take your best performing team members, and come up with a strategic vision for your business that goes beyond the day-to-day.

## Your EOFY checklist

- [ ] Digitise all your receipts and bookkeeping
- [ ] Make sure you have installed plant and equipment before claiming a write-off
- [ ] Where possible, move invoices into the next financial year
- [ ] Write off your bad debts
- [ ] Pre-pay expenses for a full year ahead
- [ ] Ensure trust dividends are set
- [ ] Update your software for Single Touch Payroll
- [ ] Adjust your tax tables for the year ahead
- [ ] Conduct your R&D assessments
- [ ] Digitise all your documents
- [ ] Implement project management software
- [ ] Set an off-site strategy day