2020/21 year-end checklist for business

Many business clients like to review their tax position before the end of the income year and evaluate any strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around accelerating deductions and deferring income. However, this year, you also need to consider the impact of the Covid-19 pandemic.

Small business entities (SBEs), ie, those with an aggregated turnover of less than $10 million, often have greater tax planning opportunities due to concessions applying only to them. SBE taxpayers generally have the flexibility to be able to pick concessions that suit their circumstances.

Here are several areas that may be considered for all business taxpayers.

Maximising deductions for non-SBE taxpayers

Deductions can be maximised for non-SBE business taxpayers by prepaying expenses, accelerating expenditure and/or accruing expenses that have been incurred.

Prepayment strategies (non-SBEs)

Any part of an expense prepayment for the period up to 30 June is generally deductible. Non-SBE taxpayers may generally claim prepayments in full for expenditure that is:

- under $1,000
- made under a ‘contract of service’ (eg, salary and wages), or
- required to be incurred under law.

Accelerating expenditure (non-SBEs)

Accelerating expenditure involves bringing forward expenditure on regular, on-going deductible items. This is a useful strategy because business taxpayers can generally claim deductions for expenses ‘incurred’ in 2020/21, even if the expenses have not actually been paid by 30 June 2021. Possible accelerated expenditure for 2020/21 include:

Depreciating assets: Non-SBEs with an aggregated turnover of (generally) less than $5 billion can fully expense eligible assets, regardless of cost, that were first acquired and used (or installed ready) for business use from 7.30pm AEDT on 6 October 2020 to 30 June 2021.

Note: Non-SBEs may choose to opt out of full expensing on an asset-by-asset basis.

If full expensing does not apply to a particular asset (or an opt-out choice is made), non-SBEs with an aggregated annual turnover of less than $500 million can generally claim:

- an immediate deduction for eligible assets costing less than $150,000 that were acquired from 7.30pm AEDT on 2 April 2019 to 31 December 2020, and were first used (or installed ready) for business use from 12 March 2020 to 30 June 2021, or

- for assets costing $150,000 or more, a 50% accelerated depreciation concession for eligible new assets first held and used (or installed ready) for business use from 12 March 2020 to 30 June 2021 (unless an opt-out choice is made for an asset).

Additional possible accelerated expenditure could include:

• Consumables/spare parts	• Repairs	• Maintenance	• Advertising
• Fringe benefits – Any benefits provided, such as property benefits, could be purchased and provided before 1 July 2021		• Superannuation contributions to a complying super fund, to the extent contributions are actually made (ie, they cannot be accrued but must be paid by 30 June).	

Accrued expenditure (for all business taxpayers - including SBE taxpayers)

Business taxpayers (including SBE taxpayers) are entitled to a deduction for expenses incurred as at 30 June 2021, even if they have not yet been paid.

Examples of expenses that may be accrued include:

- salary or wages and bonuses – the accrued expense for the days that employees have worked but have not been paid as at 30 June 2021
- interest – any accrued interest outstanding on a business loan that has not been paid
- commissions – where commission payments are owed to employees or other external parties
- fringe benefits tax (FBT) – eg, if an FBT instalment for the June 2021 quarter is due but not payable until July, it can be accrued and claimed as a tax deduction in 2020/21, and
- directors’ fees – where a company is definitively committed to paying a director’s fee as at 30 June 2021, it can be claimed as a tax deduction.

Maximising deductions for SBE taxpayers

Deductions can be maximised for SBE taxpayers by accelerating expenditure and/or prepaying deductible business expenses (and by accruing expenditure, see above).

Accelerating depreciation expenditure (for SBE taxpayers)

In addition to accelerating expenditure on various business items, SBE taxpayers that use the simplified SBE depreciation rules may claim the following 2021 deductions (if applicable) for depreciating assets:

- A full deduction for the cost of eligible assets (ie, regardless of cost) first acquired and first used (or installed ready for use) for business purposes from 7.30pm AEDT on 6 October 2020 to 30 June 2021.

  Note that, SBE taxpayers choosing to use the simplified SBE depreciation regime cannot directly opt out of temporary full expensing (if it applies).

Where temporary full expensing does not apply:

- An SBE taxpayer may be entitled to claim an immediate deduction for eligible depreciating assets costing less than $150,000 that were first used or (installed ready for use) for business purposes by 30 June 2021
- Alternatively, assets costing $150,000 or more are allocated to an SBE taxpayer's general small business pool.

  Note that, SBE taxpayers using the simplified SBE depreciation regime cannot opt out of temporary full expensing for their general pool. Consequently, the closing pool balance (before current year deductions) will be fully claimed in the 2021 income year.

Therefore, if appropriate, SBE taxpayers should consider purchasing and using (or installing) these items before 30 June 2021.

Prepayment strategies – SBE

SBE taxpayers making prepayments before 1 July 2021 can choose to claim a full deduction in the year of payment where they cover a period of no more than 12 months (ending before 1 July 2022).

Otherwise, the prepayment rules are the same as for non-SBE taxpayers.

The kinds of expenses that may be prepaid include:

- Rent on business premises or equipment
- Lease payments on business items, such as cars and office equipment
- Interest – check with your financier to determine if it's possible to prepay up to 12 months' interest in advance
- Business trips
- Business subscriptions
- Training courses that run from 1 July 2021.

Information required

This is some of the information Advisory Partner will need you to provide to help us prepare your income tax return:

- Stock-take details as at 30 June 2021
- Debtors listing (including a list of bad debts written off) as at 30 June 2021 (Note: to claim a deduction, the debt must be written off on or before 30 June)
- Creditors listing as at 30 June 2021.

2020/21 individual tax return checklist

Your checklist

- Claims for deductions ✓
- Receipts for deductions ✓
- Car claims and log books ✓

Please review the information below and contact Advisory Partner if you need assistance.

Tax saving strategies before 1 July 2021

A strategy often used to reduce taxable income (and consequently tax payable) in an income year is to bring forward any expected or planned deductible expenditure from a later income year. However, the continued impact of the Covid-19 pandemic means tax planning for individuals with potentially reduced income for the 2021 tax season may require consideration of deferring deductible expenditure (if possible).

Resident taxable income thresholds for the 2020/21 income year	Tax payable[1]
0 – $18,200	Nil
$18,201 – $45,000	19% of excess over $18,200
$45,001 – $120,000	$5,092 + 32.5% of excess over $45,000
$120,001 – $180,000	$29,467 + 37% of excess over $120,000
$180,001 and over	$51,667 + 45% of excess over $180,000

1. The Medicare levy of 2% generally applies in addition to these rates.

Common claims made by individuals

Here are common deductible expenses claimed by individual taxpayers, such as employees and rental property owners, and some strategies for increasing their deductions for the 2021 income year.

1. Depreciating assets costing $300 or less

Salary and wage earners and rental property owners will generally be entitled to an immediate deduction for some income-producing assets costing $300 or less that are purchased before 1 July 2021. They include:

• Tools of trade	• Electronic tablets	• Calculators, electronic organisers
• Software	• Books and trade journals	• Stationery.
• Luggage, suitcases	• Briefcases	

2. Clothing expenses

Individuals may pay for work-related clothing expenses before 1 July 2021, such as:

- compulsory (or non-compulsory and registered) uniforms, and occupation specific and protective clothing, and
- other associated expenses, such as dry-cleaning, laundry and repairs.

3. Self-education expenses

Employees may prepay self-education items before 1 July 2021, such as:

- course fees (but not HELP repayments), student union fees and tutorial fees, and
- interest on borrowings used to pay for any deductible self-education expenses.

They may also bring forward purchases of stationery and textbooks (ie, those not required to be depreciated).

4. Other work-related expenses

Employees may prepay any of the following expenses before 1 July 2021:

• Union fees	• Subscriptions to trade, professional or business associations	• Seminars and conferences
• Income protection insurance (excluding death and total/permanent disability)	• Magazine and professional journal subscriptions.	

Note: If you prepay any of the above expenses before 1 July 2021, ensure services being paid for will be provided within a 12-month period that ends before 1 July 2022. Otherwise, the deductions will generally need to be claimed proportionately over the period of the prepayment.

Information required

You will need to provide Advisory Partner with information to assist in preparing your income tax return. Please check the following and provide any relevant statements, accounts, receipts, etc, to help us prepare your return.

Income/receipts:

• Details of your employer(s) and wages	• Lump sum and termination payments	• Government pensions and allowances	• Other pensions and/or annuities (including JobKeeper payments)
• Allowances (eg, entertainment, car, tools)	• Interest, rent and dividends	• Distributions from partnerships or trusts	• Details of any assets sold that were used for income-earning purposes or which may be liable for capital gains tax.

Expenses/deductions (in addition to those above):

- ❑ Award transport allowance claims
- ❑ Bank charges on income-earning accounts (eg, term deposits)
- ❑ Bridge/road tolls (if travelling for work)
- ❑ Car parking (if travelling for work)
- ❑ Conventions, conferences and seminars
- ❑ Depreciation of library, tools, business equipment (incl portion of home computer)
- ❑ Gifts or donations
- ❑ Home-office running expenses, such as:

• cleaning	• cooling and heating	• depreciation of office furniture
• lighting	• telephone and internet.	

- ❑ Interest and dividend deductions, such as:

• account keeping fees	• ongoing management fees
• interest on borrowings to buy shares	• advice about changing investments (but not setting them up).

- ❑ Interest on loans to buy equipment or income-earning investments
- ❑ Motor vehicle expenses (if work-related)
- ❑ Overtime meal expenses
- ❑ Rental property expenses, including:

• advertising	• land tax	• insurance	• interest
• council and water rates	• property management fees	• genuine repairs, maintenance	• telephone expenses.

- ❑ Superannuation contributions
- ❑ Sun protection items
- ❑ Tax agent fees
- ❑ Telephone expenses (if work-related)
- ❑ Tools of trade.