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2020/21 Year-end Checklist for Business

Many of our 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, consideration will also need to be given to the impact of the COVID-19 pandemic.

Small Business Entities ("SBEs") – i.e., those with an aggregated turnover of less than \$10 million – often have greater tax planning opportunities due to certain concessions only applying to them. Further, SBE taxpayers generally have the flexibility of being able to pick the concessions that suit their circumstances.

*The following are a number of 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 relating to the period up to 30 June is generally deductible.

In addition, non-SBE taxpayers may generally claim prepayments in full for expenditure that is:

- under \$1,000;
- made under a 'contract of service' (e.g., 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 they 'incurred' during 2020/21, even if the expenses have not actually been paid by 30 June 2021.

The following may act as a **checklist** of possible accelerated expenditure for 2020/21:

- 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 also include the following:

- Repairs.**
- Maintenance.**
- Consumables/spare parts.**
- Advertising.**
- Fringe benefits** – Any benefits to be provided, such as property benefits, could be purchased and provided prior to 1 July 2021.
- Superannuation contributions** to a complying superannuation fund, to the extent contributions are actually made (i.e., 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')** – for example, if an FBT instalment for the June 2021 quarter is due but is 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 the payment of 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 also by **accruing expenditure** - refer 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) in relation to depreciating assets:

- A full deduction for the cost of eligible assets (i.e., **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 (i.e., 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 (i.e., with respect to the 2021 income year).
- 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 with regards to their general pool. As a result, 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 by 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 we will need you to bring 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: In order to claim a deduction, the debt must be written off on or before 30 June.

- Creditors listing as at 30 June 2021.