

2021/22 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 profitable small businesses is based around accelerating deductions and deferring income.

Small Business Entities ('SBEs') – i.e., those with an aggregated turnover of less than \$10 million – often have greater tax planning opportunities compared to other businesses, due to certain concessions generally only applying to them. SBEs usually also have the flexibility to pick concessions that suit their circumstances. However, for 2021/22, many of the SBE concessions are now also available to medium-sized businesses ('MSBs'), i.e., businesses with an aggregated turnover of less than \$50 million.

The following are common strategies that may be considered for **all** business taxpayers.

Maximising deductions for non-SBE business 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

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.

Note: Medium-sized businesses ('MSBs') may fully deduct prepayments made before 1 July 2022 (refer below).

Accelerating expenditure (including depreciation deductions)

Accelerating expenditure involves bringing forward expenditure on regular, on-going deductible items.

In fact, this is a useful strategy for any business taxpayer (i.e., including SBEs) because businesses can generally claim deductions for expenses they 'incurred' during 2021/22, even if the expenses have not actually been paid by 30 June 2022.

Examples of accelerated expenditure that may be incurred and claimed as a tax deduction in 2021/22 by a business taxpayer 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 2022.
- ☐ **Superannuation contributions** made to a complying fund, to the extent the contributions are actually made (i.e., they cannot be accrued but must be *paid* by 30 June 2022).

In addition to accelerating expenditure on business items such as those listed above, for 2021/22, non-SBE businesses may claim the following accelerated depreciation deductions for **depreciating assets** first used (or installed ready) for business use by **30 June 2022**:

- ☐ Non-SBEs with an aggregated turnover of (generally) **less than \$5 billion** can fully expense the cost of eligible assets as well as eligible improvements, *regardless of cost*.
Note: Non-SBEs may choose to opt out of full expensing on an asset-by-asset basis.
- ☐ If full expensing does **not** apply, or an opt-out choice is made, non-SBEs can generally claim the following depreciation deductions (if applicable) for their business assets:
 - Assets costing less than \$1,000 may be allocated to a Low Value Pool and depreciated at a rate of 18.75% (in 2022) and 37.5% thereafter.
 - In most other cases, the asset's cost is depreciated over its effective life (as determined by the taxpayer or the ATO).

Accrued expenditure

Business taxpayers (including SBEs) are entitled to a deduction for expenses incurred as at 30 June 2022, even if they have not yet been paid.

Examples of expenses that may be accrued and claimed as a tax deduction in 2021/22 include:

- ◆ **salary or wages and bonuses** accrued for the number of days that employees have worked but have not been paid as at 30 June 2022;
- ◆ accrued **interest** outstanding on a business loan that has not been paid;
- ◆ **commission** payments owing to employees or other external parties;
- ◆ the **fringe benefits tax ('FBT') instalment** for the June 2022 quarter, if it is due but not payable until July 2022; and
- ◆ **directors' fees payable** as at 30 June 2022, where the company is definitively committed to the payment.

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

In addition to accelerating expenditure on various business items (refer above), for 2021/22, SBE taxpayers that use the simplified SBE depreciation rules may claim the following deductions in relation to **depreciating assets**:

- ☐ A full deduction for the cost of eligible assets first used or installed ready for business use by 30 June 2022 (as well as eligible improvements), **regardless of cost**.

*Note: SBE taxpayers that use the simplified SBE depreciation rules **cannot** directly opt out of fully expensing depreciating assets. Instead, they will need to firstly opt out of the simplified SBE depreciation rules entirely, and then opt out of full expensing an asset-by-asset basis.*

- ☐ The SBE closing pool balance (before current year deductions), if any, will be fully claimed in the 2022 income year.

*Note: SBE taxpayers using the simplified SBE depreciation rules **cannot** opt out of full expensing with regards to their SBE general pool (i.e., even if they opt out of the simplified SBE depreciation rules).*

If appropriate, SBE taxpayers should consider purchasing and using (or installing ready for use) these items by 30 June 2022.

Prepayment strategies (SBEs and MSBs)

SBEs and medium-sized businesses ('MSBs') that make prepayments before 1 July 2022 can choose to claim a full deduction in the year of payment (i.e., in 2021/22), if they cover a period of no more than 12 months (ending before 1 July 2023).

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 whether it's possible to prepay up to 12 months interest in advance.
- ☐ **Business trips**.
- ☐ **Training courses** that run from 1 July 2022.
- ☐ **Business subscriptions**.

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 2022.
- ☐ Debtors listing (including a list of bad debts written off) as at 30 June 2022.

Note: To claim a tax deduction, the debt must be written off on or before 30 June.

- ☐ Creditors listing as at 30 June 2022.