



Advanced Tax Strategies for Businesses

Smart tax solutions to make your business money go further and advanced tax strategies for owners.



Tax Tips To Make Your Money Stretch Further

Creating a strategic approach to managing finances can significantly impact a business's bottom line. Implementing smart tax tips can help business owners make their money go further, maximising returns while minimising liabilities.

Below, we delve into several strategies, including the advantages of weekly payments, the utility of offset accounts, the benefits of redraw facilities, and the tax efficiencies of retained earnings within the company.

Paying Weekly, Not Monthly

By switching from monthly to weekly mortgage repayments, you end up making more payments over the year, which can reduce the amount of interest you pay over the life of the loan. This is because interest on mortgages is calculated daily.

By making more frequent payments, you're continually reducing the principal balance on which the interest is calculated.

EXAMPLE

Suppose you have a mortgage with a monthly repayment amount of \$2,000. Instead of making these monthly payments, you divide \$2,000 by 4, resulting in weekly payments of \$500. Over a year, this equates to 52 payments (\$26,000), compared to the 12 monthly payments (\$24,000) you would have made otherwise. This extra amount directly reduces your principal, thereby reducing the total interest charged over the loan's term.

The same strategy can apply to multiple different expenses.

By dividing your monthly repayment by four and paying that amount every week, you're effectively making an extra month's payment each year. This simple adjustment can significantly reduce pressures on your cash flow and help you get ahead of ongoing bills.

EXAMPLE

If your cyber security retainer is \$2,400 a month, dividing this by 4 gives you \$600. By paying \$600 every week, you're not only staying ahead of your payment schedule but may also be able to negotiate a discount.

Leaving Money in the Company – as the Lower Tax Rate

Retaining profits within the company can be a tax-efficient strategy for small to medium-sized businesses. Corporate tax rates are generally lower than individual marginal tax rates, especially at higher income levels.

By leaving money in the company, you're taxed at the corporate rate, which can result in significant tax savings. This strategy can be beneficial for reinvesting in the business, funding expansion, or saving for future expenses.

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EXAMPLE

If a company earns a profit and decides to retain those earnings rather than distributing them as dividends to its shareholders, the retained profits will be taxed at the corporate tax rate, which in Australia is currently 25% for small businesses. If the profits were distributed, they could be taxed at the shareholder's personal income tax rate, which could be as high as 45%.

Super Carried Forward Concessional Contributions

This strategy allows individuals to carry forward unused concessional contribution caps for up to five years, allowing them to make larger contributions to their superannuation fund in later years without exceeding the cap. This is particularly useful for individuals who may have had lower income years or did not maximise their concessional contributions in previous years.

EXAMPLE

If you have a concessional contributions cap of \$27,500 per year and only contributed \$17,500 last year, you can carry forward the unused \$10,000. If you have the capacity next year, you could contribute \$37,500 (\$27,500 for that year plus the carried forward \$10,000) and claim a tax deduction for the entire amount, thereby reducing your taxable income.

Cash vs Accrual Reporting for Small Businesses

Small businesses have the option to choose between cash-based and accrual-based reporting for tax purposes.

Cash-based accounting means you report income in the year you receive it and deduct expenses in the year you pay it. This allows you to prepay certain business expenses and can provide immediate tax deductions in the current financial year. This strategy is particularly useful for expenses that cover services extending into the next year, such as insurance premiums or subscriptions.

EXAMPLE

If you prepay your business insurance for the next 12 months in June, you can claim the entire expense as a tax deduction in the current fiscal year, rather than spreading it over two years.

Accrual-based accounting reports income and expenses when they are earned or incurred, regardless of when money changes hands.

EXAMPLE

A business receives a large contract in late June but has not received the cash payment yet, it would still have to report this income, potentially incurring tax for money not yet received.

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Variation of PAYG Instalments - Helps Cash Flow

The Pay As You Go Instalment (PAYGI) system allows businesses and individuals to make incremental payments towards their expected tax liability. If your income decreases, you can apply to vary your PAYG instalments downward, which can free up cash flow.

EXAMPLE

If a business anticipates a lower income for the current year due to market conditions, it can apply to reduce its PAYG instalments. This adjustment means the business retains more cash throughout the year, helping manage operational costs more effectively

Buy a Commercial Office With Superannuation

Self-managed super funds (SMSFs) can purchase commercial property, which can then be leased back to a member's business at market rates. This strategy provides a way to transfer wealth into the super while meeting business needs. It has the extra benefit of concessional tax treatment while also assisting with business cash flow.

Commercial premises can be leased to a fund member for their business, but the lease must adhere to market rates and specific rules. Consult your accounting professional to set this up in compliance with regulations.

EXAMPLE

An individual could use their SMSF to purchase the premises from which their business operates. The business pays rent to the SMSF, effectively channelling funds into the superannuation environment where they are taxed at a lower rate, while also creating a retirement asset.

The rent must be at the market rate (no discounts) and paid promptly and in full at each due date. A lease arrangement needs to be in place, clearly outlining the terms and conditions of standard commercial agreements, and the property will need to be periodically independently valued.

Negative Gearing Strategy

Negative gearing involves borrowing to invest in income-producing assets, like property or shares, where the cost of owning and managing the investment exceeds the income it generates. The loss can typically be deducted against other income, reducing the investor's taxable income.

The optimal time to use negative gearing is when there are prospects for significant capital appreciation in the property market.

A buoyant real estate market, where property values are expected to rise steadily, can increase the potential for future gains. These may eventually outweigh the short-term losses from negative gearing. However, it is not guaranteed.

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EXAMPLE

If you purchase an investment property and the interest on the mortgage, maintenance, and other costs total \$30,000 annually, but you only receive \$20,000 in rental income, you can deduct the \$10,000 loss from your taxable income, thereby reducing the amount of tax you owe.

Last year, \$15.5 million was awarded to 674 businesses for upgrading pool covers, refrigerators, LED lighting, window glazing and other activities.

EXAMPLE

Installing solar panels on your business premises may qualify for a deduction, reducing your taxable income while also lowering energy costs.

Environmental Tax Deductions

Investments in environmentally friendly business practices can yield tax deductions. This includes deductions for green buildings, energy-efficient equipment, and pollution control measures.

The NSW Government's Energy Efficiency Grants provided up to \$25,000 to businesses to switch to more efficient equipment, saving on energy bills and reducing emissions. Upgrades to appliances like freezers or air conditioners save on bills and contribute to Australia's emissions reduction targets.

Minimise Tax and Save Long Term



These strategies offer ways for individuals and businesses to potentially reduce their tax liabilities and improve their financial positions. However, it's crucial to approach tax planning with care and consult with tax professionals to ensure compliance with tax laws and regulations.

Strategies like these should be tailored to individual circumstances and financial goals, keeping in mind the legal and ethical obligations to the tax system.

Tax Planning Doesn't Have to be Rocket Science

Many business owners miss out on opportunities for tax minimisation during the year. That's why working with experts can provide support and guidance to help you stay compliant while launching you towards your goals.

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