Maximising Deductions for non-STS Taxpayers

Non-STS business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- **Accelerating expenditure** – this involves bringing forward the 2005 income year, future or proposed expenditure (eg repairs and depreciable items costing less than $100).
- **Prepayment strategies** – this involves paying (or incurring) an expense in advance, by 30 June 2005 (eg lease payments, rent, interest, insurance premiums and subscriptions).
- **Accrued expenditure** – this involves ensuring that so much of a deductible expense that has been incurred but not yet paid for as at 30 June 2005, is brought to account as an allowable deduction in the 2005 income year (eg salary and wages, interest and rent).

Accelerating Deductions Checklist for non-STS Businesses

A common year-end tax planning strategy (to maximise a non-STS taxpayer's deductions) is to identify those deductible expenses that would otherwise have been incurred in the 2006 income year, and bring those forward to the 2005 income year (ie incur those expenses by 30 June 2005). Common examples include repairs and maintenance, stationery and the purchase of depreciable plant that can be written-off in full in the year of purchase.

<table>
<tr><th colspan="2">Accelerating Expenditure Checklist for non -STS Taxpayers</th></tr>
<tr><td>1. Maximising depreciation deductions</td><td>(a) Depreciable assets costing $100 or less

These can generally be written-off in the year of purchase. Examples include the following:
• Small hand tools (eg hammer, saw, pliers, screwdrivers and spanners).
• Crockery and cutlery
• Bedding linen and table linen.
• Office equipment (eg calculators, staplers, scissors, tape dispensers, labelling machines and bar coding machines).
• Primary producer's tools (eg secateurs and pliers).

Therefore, non-STS business taxpayers should consider purchasing these items before 30 June 2005.

(b) Low –value pool –assets less than $1000

• New Assets –depreciable assets costing less than $1000 and allocated to a low-value pool are basically depreciated for 'six-months' (ie a depreciation rate of 18.75%, which is half the full rate of 37.5%) in their first year (irrespective of the date of purchase).

Therefore, a non-STS business taxpayer should consider purchasing these items by 30 June 2005.

• Existing Assets – existing depreciable assets written down to less than $1000 using the diminishing value method can be allocated to a low-value pool and depreciated at the full rate of 37.5% (which equates to an effective life of 4 years).

Therefore, where an existing depreciable asset otherwise has an</td></tr>
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	effective life of more than 4 years (eg based on the Commissioner's effective life estimate), depreciation claims for the asset (in its earlier years) will be greater in a low-value pool, compared with depreciating the same asset over its effective life. **(c) Sell or write-off depreciable assets** A non-STS business taxpayer can claim a balancing deduction on the disposal of a (non-pooled) depreciable asset where the asset's sale proceeds (if any) is less than its adjustable value. A taxpayer should consider selling or scrapping an asset (which has an unrealised balancing deduction) by 30 June 2005, so that the loss can be claimed in the 2005 income year.
2. **Consumables (eg office supplies, stationery and spare parts)**	Consider making a purchase of consumable items by 30 June 2005, either to top-up existing supplies or to build up a store of supplies for future needs. However, where items are purchased beyond the immediate requirements of the business, the ATO may require deductions to be made on a usage basis. Immediate usage would generally be within 3 months.
3. **Repairs to Business Assets**	A non-STS business taxpayer is generally entitled to claim a deduction for any repair expenditure incurred in respect of business assets (eg business premises and depreciable assets). Consider bringing forward this expenditure to the 2005 income year (ie incur the expenditure before 30 June 2005).
4. **Superannuation Contributions**	An non-STS taxpayer can claim a deduction for superannuation contributions made to a complying fund, for themselves (in the case of a sole trader) or for any employee, up to certain limits. However superannuation contributions are **only** deductible in the 2005 income year to the extent they are **actually paid** to the fund by 30 June 2005. Even though they may not be required to be paid until 28 July 2005 for superannuation guarantee purposes.
5. **Client Gifts**	If it is common practice within a business to offer gifts to clients, suppliers, etc (eg bottles of wine), consider purchasing gifts by 30 June 2005.

Prepayments Checklist for non-STS Businesses

Generally, under the prepayment rules a non-STS business taxpayer **cannot** claim an immediate deduction for deductible prepaid expenditure in the year in which it is incurred. Instead, these taxpayers must generally apportion their deductions for prepaid expenditure over the period to which the expenditure relates.

However as an exception to this general rule, a non-STS business taxpayer can claim an immediate deduction for deductible prepaid expenditure that qualifies as *excluded expenditure.*

The following checklist outlines the main categories of excluded expenditure and provides examples of prepaid expenditure that would fall into these categories.

Prepaid excluded expenditure that is immediately deductible	
1. **Prepayments that are required to be incurred by a law or court order**	Where deductible prepaid expenditure is required to be incurred by a law or a court order, it will qualify as excluded expenditure. Therefore, a non-STS business taxpayer can claim an immediate deduction for this expenditure in the year in which it is incurred. The ATO take the view that there must be a requirement not only to incur the relevant expenditure, but also incur it in advance. Examples of prepaid expenditure that would qualify as excluded expenditure include the following: • Motor vehicle registration and compulsory third party insurance. • Statutory licences (eg taxi licence, liquor licence, fishing licence). • Work Cover premiums.
2. **Prepayments under $1000**	Where a taxpayer incurs deductible prepaid expenditure that is less than $1000, the expenditure will qualify as excluded expenditure. Therefore, an immediate deduction can be claimed for this expenditure in the year it was incurred. Where the taxpayer is entitled to a GST input tax credit for any GST included in the expenditure, it is the **GST – exclusive** amount that must be less than $1000. For example, a GST-registered business taxpayer incurs prepaid expenditure of $1045 including $95 GST. Assuming the taxpayer is entitled to claim a GST input tax credit of $95, the GST exclusive cost of the prepayment is **$950** (ie $1045 - $95). Therefore the expenditure qualifies as excluded expenditure.
3. **Prepayments under a 'contract of service'**	Where a taxpayer incurs prepaid expenditure under a contract of service, it will qualify as excluded expenditure. Prepayments under a 'contract of service' typically relate to payments made under an employment agreement, such as payments of salary and wages, bonuses and commissions. Therefore an employer will be able to claim an immediate deduction for prepayments of salary, bonuses and commissions, in the income year in which the prepaid expenditure is incurred. An employer should also be entitled to claim an immediate deduction for the

	prepayment of directors' fees and bonuses.

Accruals Checklist for non-STS Businesses

Most (if not all) non-STS businesses will have deductible expenses that have been incurred but not yet paid for by 30 June (ie accrued expenses). As a non-STS business taxpayer can claim deductions on an 'incurred' basis, it is important to identify these expenses so that a deduction can be claimed for so much of the expense that has been accrued as at 30 June 2005.

Basically, a non-STS business taxpayer will incur an expense where the taxpayer has a 'presently existing liability' in relation to the expense.

Accrued expenses for non-STS businesses	
1. **Salary and wages**	The gross salary amount that is payable to an employee for the number of days worked up to 30 June 2005 (but not yet paid) is an accrued salary expense which can be claimed as a tax deduction for the 2005 income year.
2. **Staff bonuses**	Where a business is definitively committed to the payment of a staff bonus as at 30 June 2005, it can be claimed as a tax deduction.
3. **Directors' fees**	A company is entitled to claim a deduction for directors' fees it is definitely committed to paying at 30 June 2005. The ATO will expect a properly authorised **shareholder resolution** to be passed by 30 June 2005 in which the company commits to paying the directors a quantified amount. A mere journal entry to evidence the commitment to pay the directors' fees will not be sufficient. The effect of the accrual is that the company claims a deduction for the directors' fees in the current year and the director is not required to include the amount in their income tax return until the amount is actually received.
4. **Commissions**	Where an employee or third party is owed a commission payment but has not been paid as at 30 June 2005, the accrued amount can be claimed as a tax deduction. For example, a salesperson sells photocopiers and receives 10% of the sales price as a commission, which is paid 7 days after the sale. If a sale is made on 28 June 2005, the employer can claim a deduction for the commission amount payable, as the commission was incurred on 28 June.
5. **Rent**	Given that rent is normally paid in advance, it is unlikely that a non-STS business will have an accrued rent expense as at 30 June 2005. However, to the extent that rent is paid in arrears, that part that has accrued to 30 June 2005 may be claimed.
6. **Interest**	Any accrued interest owning on a business loan that has not been paid as at 30 June 2005 can be claimed as a deduction. This is assuming the interest in incurred as at 30 June 2005.
7. **Repairs and maintenance, legal advice, utilities and tax agent/accounting**	The cost of deductible goods or services which have been invoiced/billed (ie incurred) but not paid for at 30 June 2005, can be claimed as a deduction in the 2005 income year. Examples include repairs, legal advice, electricity, gas, telephone, advertising, and tax agent and accounting fees.

fees.	