

Maximising deductions for STS taxpayers

From a year-end tax planning perspective, STS business taxpayers can generally maximise deductions by **accelerating expenditure** (ie. bringing forward to the 2005 income year, future or proposed expenditure) and **prepaying** deductible business expenses (eg lease payments, rent, insurance premiums and business subscriptions).

Generally, as STS taxpayers can only claim deductions on a 'cash paid' basis, they **cannot** claim deductions for accrued expenses at 30 June 2005.

Accelerating deductions checklist for STS businesses

For the 2005 income year, an STS taxpayer can only claim deductions under S.8-1 (general deductions), S.25-25 (tax-related expenses) and S.25-10 (repairs), on a 'cash paid' basis. Therefore, for these expenses to be deductible in the 2005 income year, they must be paid for by 30 June 2005. The following checklist outlines the more common types of deductible business expenses that an STS taxpayer can bring forward into the 2005 income year.

| Accelerating Expenditure Checklist for STS Taxpayers | |
|--|--|
| 1. Maximising depreciation deductions | <p>(a) Depreciable assets costing less than \$1000 These assets are basically written off in the year of purchase. Therefore where appropriate, STS business taxpayers should consider purchasing these items by 30 June 2005.</p> <p>(b) General STS pool – assets costing \$1000 or more with an effective life of less than 25 years These assets are basically depreciated for 'six months' (ie. a depreciation rate of 15%, which is half the full rate of 30%) in their first year (irrespective of the date of purchase). Therefore, an STS business taxpayer should consider purchasing these items by 30 June 2005.</p> |
| 2. Pay Bills by 30 June 2005 | Consider paying bills already received by 30 June 2005, to bring deductions into the 2005 income year. |
| 3. Consumables (eg office supplies, stationery and spare parts) | <p>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.</p> <p>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.</p> |
| 4. Superannuation Contributions | <p>An 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.</p> <p>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.</p> |
| 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 STS taxpayers

An STS taxpayer can only claim a deduction for prepaid expenditure where either of the following conditions are met:

- (a) The 12 month prepayment rule is satisfied. This requires that:
- The prepaid expenditure has an eligible service period not exceeding 12 months.
 - The eligible service period ends in the income year after the one in which the expenditure was incurred.
- (b) The expenditure qualifies as *excluded expenditure*. This includes an amount of expenditure that is:
- Less than \$1000;
 - Required to be incurred by a law, or by an order of a court, of the Commonwealth, a State or a Territory (eg., workers compensation and motor vehicle registration);
 - Incurred under a contract of service (eg, salary or wages).

| Year End Prepayments Checklist for STS Taxpayers | |
|---|--|
| 1. Lease Payments | Consider prepaying the lease payments on business assets such as non-luxury cars and office equipment. |
| 2. Car Registration | Consider paying deductible annual car registration fees by 30 June 2005. |
| 3. Rent | Consider paying rent on business premises. |
| 4. Insurance | Consider paying annual (deductible) insurance premiums by 30 June 2005 (where appropriate). When an annual premium is paid periodically consider prepaying some or all of the outstanding premium. Examples include building insurance, income protection, business expenses, public liability, and keyman insurance. |
| 5. Interest | Where there are outstanding business loans, overdrafts or other finance facilities, consider organising with the financier to prepay interest or to be charged interest in advance. |
| 6. Business Trips | Consider paying, by 30 June 2005, for business travel costs (eg airfares, accommodation and other costs) in connection with a business trip to be undertaken on or after 1 July 2005. |
| 7. Seminars and Conferences Training | Consider booking and paying (by 30 June 2005) for a training course, seminar or conference that will take place after this date. |
| 8. Subscriptions | Consider paying (deductible) annual subscriptions by 30 June 2005 (where appropriate – eg for amounts less than \$1000). Where annual subscriptions are paid for periodically consider paying some or all of the outstanding subscriptions. |