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On The Money

June 2022

Year End Tax Planning

As we approach the end of the 2022 financial year, tax planning has never been more important. As accountants, we believe our client brief includes helping you minimise your tax liability within the framework of the Australian taxation system. The purpose of this article is to highlight some end of year tax planning opportunities - but you need to be proactive to take advantage of these strategies. We encourage you to schedule a meeting with us as soon as possible to assess your tax planning options.

To assist you we have put together a list of strategies to consider before June 30 and note:

- To maximise the benefits for the current financial year, we suggest you prepare a preliminary calculation of your taxable income for the year ending June 30, 2022 to identify the size of your likely tax debt and establish if you have a tax 'problem'.
- Review all tax-deductible expenses and assessable income in the latest available figures to determine the possibility of pre-paying some expenses before June 30 or deferring some revenue until after July 1, 2022.

Please note, the following list of tax planning opportunities is certainly not exhaustive and depending on your circumstances (including your turnover and whether you are on a cash or accruals method of accounting), some conditions may apply that restrict your use of these strategies. If you would like to discuss your tax planning options, we urge you to contact us today and most importantly, don't leave it until the last minute as some of these strategies require some time to implement.

KEY TAX MINIMISATION STRATEGIES

1. Delay Deriving Assessable Income

One effective strategy is to delay deriving your income until after June 30, 2022 by:

a) Delaying the timing of the derivation of income until after June 30
b) Timing of raising invoices for incomplete work (businesses).

Where this strategy will not adversely affect your cash flow, consideration should be given to deferring the recognition of income until after 30 June 2022. Please note, not banking amounts received before June 30 until after June 30 does NOT qualify because the income is deemed to have been earned when the money is received or the goods or services are provided (depending on whether you are on a cash or accruals basis of accounting).

- Cash Basis Income - Some income is taxable on a cash receipts basis rather than on an accruals basis (e.g. rental income or interest income in certain cases). You should consider whether some income can be deferred in those

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Year End Tax Planning *(Continued)*

instances.·

- Consider delaying the raising of your invoices to customers until after July 1, which will push the derivation of the income into the next financial year and defer the tax payable on that income. If you operate on the cash basis of accounting, you simply need to delay receiving the money from your customers until after June 30.
- Lump Sum Amounts - Where a lump sum amount is likely to be received close to the end of a financial year, you should consider whether this amount (or part thereof) can be delayed or spread over future periods.

2. Bringing Forward Deductible Expenses or Losses

Prepayment of Expenses - In some circumstances, Small Business Entities (SBE) and individuals who derive passive type income (such as rental income and dividends) should consider pre-paying expenses prior to 30 June, 2022. A tax deduction can be brought forward into this financial year for expenses like:

- Employee Superannuation Payments including the 10% Superannuation Guarantee Contributions for the June 2022 quarter (that have to be received by the Superannuation Fund by June 30, 2022 to claim a tax deduction)
- Superannuation for Business Owners, Directors and Associated Persons
- Wages, Bonuses, Commissions and Allowances
- Contractor Payments
- Travel and Accommodation Expenses
- Trade Creditors
- Rent for July 2022 (and possibly future additional months)
- Insurances including Income Protection Insurance
- Printing, Stationery and Office Supplies
- Advertising including Directory Listings
- Utility Expenses - Telephone, Electricity and Power
- Motor Vehicle Expenses - Registration and Insurance
- Accounting Fees
- Subscriptions and Memberships to Professional Associations and Trade Journals
- Repairs and Maintenance to Investment Properties
- Self-Education Costs
- Home Office Expenses – desk, chair, computers etc.
- Donations to deductible gift recipient organisations
- If appropriate, consider prepaying any deductible investment loan interest. This could include interest payments on an investment loan for either an investment or commercial property or an investment portfolio you hold.

A deduction for prepaid expenses will generally be allowed where the payment is made before June 30, 2022 for services to be rendered within a 12 month period. While this strategy can be effective for businesses operating on a cash basis (not accruals basis), we never recommend you spend money on items you don't need. However, paying expenses in June that are due in July could save you some tax this financial year. Of course, this only works if you have sufficient cash flow to pre-pay the expenses.

Superannuation Contributions - some low or middle-income earners who make personal (after-tax) contributions to a superannuation fund may be entitled to the Government co-contribution. The amount of Government co-contribution will depend on your income and how much you contribute. (Refer to the Superannuation Section below for more information).

Capital Gains/Losses – Note that the contract date (not the settlement date) is often the key sale date for capital gains tax purposes and when it comes to the sale of an asset that triggers a capital gain or capital loss, you need to consider your overall investment strategy when making the decision to sell. Here are several important points regarding the management of capital gains and capital losses on sale of your assets from a tax planning perspective:

i) If appropriate, consider deferring the sale of an asset with an expected capital gain (and applicable capital gains tax

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liability) until it has been held for 12 months or longer. By doing so, you could reduce your personal income tax. For example, if you hold an asset for under 12 months, any capital gain you make may be assessed in its entirety upon the sale of that asset.

* A capital gain will be assessable in the financial year that it's crystallised.

ii) If appropriate, consider deferring the sale of an asset with an expected capital gain (and applicable capital gains tax liability) to a future financial year. By doing so, you could help reduce your personal income tax for the current financial year. This could also be of benefit if, for example, you expect that your income will be lower in future financial years compared to the current year.

iii) If appropriate, consider off-setting a crystallised capital gain with an existing capital loss (carried forward or otherwise) or bringing forward the sale of an asset currently sitting at a loss. By doing so, you could reduce your personal income tax in this financial year. Note that a capital loss can only be used to offset a capital gain.

Accounts Payable (Creditors) – If you operate on an accruals basis and services have been provided to your business, ensure that you have an invoice dated June 30, 2022 or before, so you can take up the expense in your accounts for the year ended 30th June 2022.

Businesses Should Also Consider:

Stock Valuation Options - Review your Stock on Hand and Work in Progress listings before June 30 to ensure that it is valued at the lower of Cost or Net Realisable Value. Any stock that is carried at a value higher than you could realise on sale (after all costs associated with the sale) should be written down to that Net Realisable Value in your stock records.

Compulsory Superannuation Guarantee – as mentioned above, if you want a tax deduction in the 2021/22 financial year, the superannuation fund must receive the funds by June 30, 2022. The Tax Office doesn't consider a contribution to be made until the amount is actually credited to a super fund's bank account, so an electronic transfer to another bank account on June 30 is not necessarily considered paid. We strongly recommend you make the payment a week or so before June 30 and then follow up with the super fund to ensure the funds have been received. Don't risk the tax deductibility of what can often be a significant amount by leaving the payment to the last minute.

Write-Off Bad Debts – if you operate on an accruals basis of accounting (as distinct from a cash basis) you should write off bad debts from your debtors listing before June 30. A bad debt is an amount that is owed to you that you consider is uncollectable or not economically feasible to pursue collection. Unless these debts are physically recorded as a 'bad debt' in your system before June 30, 2022, a deduction will not be allowable in the current financial year.

Repairs and Maintenance Costs – Where possible and cash flow permits, consider bringing these repairs forward to before June 30. If you don't understand the distinction between a repair and a capital improvement, please consult with us because some capital improvements may not be tax deductible in the current year and could be claimable over a number of years as depreciation.

Obsolete Plant and Equipment - should be scrapped or decommissioned prior to June 30, 2022 to enable the book value to be claimed as a tax deduction.

Immediate Write Off for Individual Small Business Assets & Temporary Full Expensing

The accelerated depreciation and instant asset write-off concession for small businesses has been extended. The eligibility criteria and threshold for the instant asset write-off have changed over time. Any business with an aggregated turnover of up to $500 million will be able to claim a tax deduction for each asset purchased and first used or installed ready for use before June 30, 2022. Qualifying assets can cost up to the $150,000 threshold.

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Year End Tax Planning *(Continued)*

In addition, until 30th June 2022, **Temporary Full Expensing** means the instant asset write-off thresholds don't apply as this allows an immediate deduction for:-

- the business portion of the cost of new eligible depreciating assets for businesses with an aggregated turnover under $5 billion
- the business portion of the cost of eligible second-hand goods for businesses with an aggregated turnover under $50 million
- the balance of a small business pool at the end of each income year in this period for businesses with an aggregated turnover under $10 million.

In other words, for assets you purchased and first used (or have installed ready for use) for a taxable purpose from 7.30pm (AEDT) on 6 October 2020 to 30 June 2022, the instant asset write-off threshold does not apply. You can immediately deduct the business portion of the asset's cost under temporary full expensing.

On face value the instant asset write off is a very appealing tax concession, however, there are a number of conditions you need to satisfy. Firstly, the asset must be used in the business for income-producing purposes. The Tax Office have stated they will monitor usage to detect 'rorts' so once you lodge your tax return you might get a 'please explain' letter from the ATO asking for more details.

Here are some key points to consider:

◊ For the instant asset write off, the asset can be new or second hand.
◊ To be eligible, the asset must be purchased by a business turning over less than $50m or $500 million after 12th March 2020.
◊ The amount must be under $150,000 (depending on date of purchase).
◊ If you borrow to purchase the asset, the asset is still eligible.
◊ The asset must be installed and ready to use by the deadline.
◊ To claim the write off on a motor vehicle you will need to have a valid log book and claim only that percentage of the cost as an immediate write off.
◊ If you purchase a car for your business, the instant asset write-off is limited to the business portion of the car limit of $60,733 for the 2021/22 income tax year.
◊ Any attempt to manipulate invoices etc. will attract the ATO's use of the anti-avoidance rules, thereby eliminating the write off.
◊ If your business has made a small profit or even a loss, the write off will be of little or no benefit in the current year (losses are not refundable but can be carried forward to the next year).
◊ Building structural improvements are not eligible for the instant write off.

Checklist of Other Year End Tax Issues

In addition to the tax planning opportunities, there are a number of obligations in relation to the end of the financial year including:

If you use a Motor Vehicle in producing your income you may need to:

✓ Record Motor Vehicle Odometer readings at June 20, 2022
✓ Prepare a log book for 12 continuous weeks if your existing one is more than 5 years old. Please note, if you commence the logbook prior to June 30, 2022, the usage determined will still be appropriate for the whole of 2021/22. As such, it is not too late to start preparing one for the current financial year.

If you have started an account-based pension: Ensure that you have withdrawn the annual minimum required.

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Year End Tax Planning *(Continued)*

If you are in business or earn your income through a Company or Trust:

- **Employer Compulsory Superannuation Obligations:** The deadline for employers to pay Superannuation Guarantee Contributions for the 2021/22 financial year is July 28, 2022. However, if you want to claim a tax deduction in the 2021/22 financial year the super fund (or Small Business Superannuation Clearing House) must receive the contributions by June 30, 2022. You should therefore avoid making contributions at the last minute because processing delays could deny you a significant tax deduction in this financial year.

- **For Private Company - Div 7A Loans** - Business owners who have borrowed funds from their company in prior years must ensure that the appropriate principal and interest loan repayments are made by June 30, 2022. Current year loans must be either paid back in full or have a loan agreement entered into before the due date of lodgement of the company return. Failure to comply risks having it counted as an unfranked dividend in the individual's tax return.

- Preparation of **Stock Count Working Papers** at June 30, 2022.

- Preparation and reconciliation of **Employee PAYG Payment Summaries** (formerly known as Group Certificates). Note you are not required to supply your employees with payment summaries for amounts you have reported and finalised through Single Touch Payroll.

- **Trustee Resolutions** - ensure that the Trustee Resolutions on how the income from the trust is distributed to the beneficiaries are prepared and signed before June 30, 2022 for all Discretionary (Family) Trusts. If a valid resolution hasn't been executed by this date, the default beneficiaries become entitled to the trust's income and are then subject to tax. Income derived but not distributed by the trust will mean the trust will be assessed at the highest marginal rate on this income.

SUPERANNUATION AND TAX PLANNING

INCREASE IN SUPER GUARANTEE CONTRIBUTION RATE

From July 1, 2022 there are two important changes to Super Guarantee (SG) that will apply to to employers. These are:

⇒ the rate of SG is increasing from 10% to 10.5%
⇒ the $450 per month eligibility threshold for when SG is paid is being removed.

This means from July 1:

⇒ you'll need to make SG contributions at the new rate of 10.5%
⇒ employees can be eligible for SG, regardless of how much they earn. You may have to pay SG for the first time for some or all of your employees.

CONCESSIONAL CONTRIBUTION CAP OF $27,500 FOR EVERYONE

The 2021/22 tax-deductible superannuation contribution limit or cap is $27, 500 for all individuals regardless of their age.

If eligible and appropriate, consider making the most of your 2021/22 financial year annual concessional contributions cap with a concessional contribution. Note that other contributions such as employer Superannuation Guarantee Contributions (SGC) and salary sacrifice contributions will have already used up part of your concessional contributions.

The advantage of making the maximum tax-deductible superannuation contribution before June 30, 2022 is that superannuation contributions are taxed at between 15% and 30%, compared to personal tax rates of between 32.5% and 45% (plus 2% Medicare levy) for an individual taxpayer earning over $45,000.

It's Time to Work ON the Business, not just IN the Business

As we emerge from the pandemic with a new government we are now dealing with the threat of higher inflation and interest rates not to mention supply chain issues and a shortage of labour across many industries. The roller coaster ride for business owners isn't over and it's a great time to take stock and spend some time working on the business.

Most business owners are familiar with Michael Gerber's 1986 book, *The E-Myth (Entrepreneurial Myth) Revisited* in which the author suggests that people think businesses are started by real entrepreneurs, however, in reality, the majority of businesses are started by 'technicians'. In essence, he suggests that a tradesman might be skilled at building or re-wiring a house, however, they might lack the essential marketing, bookkeeping or financial management skills to build a highly successful business. An exceptionally talented motor mechanic might know very little about people management, social media, lead generation or how to convert those leads into customers. One of the key messages for entrepreneurs in the book is, business owners need to work ON their business, not just IN the business.

The challenge for every business owner is to create a business that works independently of them. In other words, a business that doesn't rely on their technical skills to produce the necessary outcomes and financial results. The reality is, a lot of small business owners genuinely believe that nobody else can perform certain technical tasks better than they can. While there may be an element of truth in that belief, there are lots of technicians in the marketplace who are competing for the same type of work and clearly, some are more skilled than others. It's also probably fair to say, a lot technicians are not suited to running their own business because they lack the necessary marketing, sales, HR, social media or bookkeeping skills.

As an entrepreneur you need to be flexible and multi-task which means you may have to fill the roles of receptionist, recruiter, cleaner and bookkeeper. The workload can be overwhelming but working longer hours is generally not productive, sustainable or healthy. Working smarter not harder is the answer and that includes not wasting time on low level tasks that could be delegated to team members or outsourced.

The fact is, most businesses stay small for a reason but working ON the business can have a profound impact on your growth and profitability. The franchise concept lets you open multiple branches of your business when you obviously can't be in 10 places at once. By systemising all the operating procedures and documenting them for others to follow, you can create a business model that works without your technical input. Trained staff provide leverage to help grow the business, the profits and the business value.

SYSTEMS & PROCEDURES

Systemisation involves identifying every repeatable process or task performed in the business and documenting how to perform them. In addition, systemisation also includes listing who is responsible for each step in the process, what tools or resources are to be used, and when these tasks should be performed.

To bring this business model to life you need to remove yourself from the day-to-day operational tasks and focus on developing systems. By documenting the procedures for your team to follow, theoretically the business should continue to produce the same quality products and awesome customer service. The objective is to have the business run on autopilot so you are free to work on developing and growing the business. The true entrepreneur is focused on strategic planning, marketing plus research and development so you continue to innovate and implement the latest technology to create more efficient processes. In turn, this will help you retain and train the right people to implement your systems.

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It's Time to Work ON the Business, not just IN the Business *(Continued)*

While it sounds simple, creating a business 'machine' that works like clockwork to produce consistent returns without your daily involvement takes a lot of planning and hard work. The reward is the freedom to work the hours you want and still generate an income to support your lifestyle. Imagine having an automated business engine that generates leads, converts those leads into new customers, tracks the important key performance indicators (KPI's) and produces financial reports without your hands on involvement. The challenge is to develop a business where the results are systems-driven, not people-driven.

Unfortunately, only a small percentage of entrepreneurs succeed in removing themselves from the operational side of their business and the majority are overwhelmed by the 'job' they have created. Sadly, in many cases, the financial rewards don't justify the long hours, pressure and stress. Put simply, you could already be working incredibly long hours so it might not be possible to work any harder. If that is the case, it's time to work smarter not harder because in business, the definition of insanity is doing things the same way and expecting a different result.

How is it that some business owners seem to be working less hours and lack the marketing skills of their competitors, yet they are still able to scale and grow their business? You will find these entrepreneurs have simplified, systemised and automated large parts of their business 'machine' so the business doesn't rely on them to crank up the engine every day. A business run by a technician grinds to a halt when they aren't 'on the tools' or are sick. They find it difficult to take time off and rarely enjoy a decent holiday. The technician builds strong relationships with their key customers which might prove difficult to transition to a new owner. These characteristics can devalue the business and most potential buyers don't want to buy a 'job', they want to invest in a machine that operates without their hands-on technical skills.

Having systems in place means you can be more hands-off so you can spend more time working on the business. You can delegate or outsource the repetitive tasks to your team members in the knowledge that they are following the precise processes you put in place. This produces consistent outcomes irrespective of who is completing the task.

Systems also mean when you hire new staff (or commence outsourcing tasks) the process is much clearer and easier. Every business owner should aim to reduce the time it takes to train new staff and streamline the induction process. This means you don't have to spend a lot of time explaining their role and responsibilities or answering repetitive questions about the tasks. You or a team member can simply walk them through a document (or video) that outlines the relevant processes to follow. This will save time, money and plenty of angst but it won't completely remove the need for some instructional training. No doubt it will speed up the process and you won't have to micro-manage your team because they know exactly what they need to do, how to do it, what tools to use and when to do it.

GETTING STARTED

The starting point in systemising your business is identifying all the processes you use. Begin with the repetitive tasks and document all the operational steps you follow. The more detail the better and we recommend you prioritise the list of tasks and focus on the ones that soak up the most time or have the biggest impact on your business. Think about everything you do and checklists can prove very useful. Break down the tasks into the various components of your business that might include:

- Finance - invoicing, bookkeeping and accounting reports
- Human Resources - recruitment, employment agreements, induction, training etc.
- Marketing - website maintenance, social media, newsletters, blogs, emails, etc.

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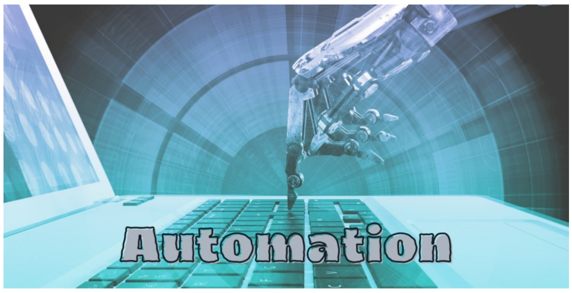
It's Time to Work ON the Business, not just IN the Business *(Continued)*

- Operations - answering calls and emails, onboarding new customers, customer database management, follow up of leads and customers
- Information Technology - software and systems
- Sales & Purchasing Procedures

If you can simplify some of the tasks then you might be able to systemise them or even better, automate them using technology. Email software tools (like Mail Chimp) can automatically generate a series of emails based on a certain trigger events. An online calendar can let your customers or clients book their own appointments and then automatically send out appointment reminders by text or email which can reduce no-shows and last minute cancellations. This type of software can let customers reschedule, cancel or book regular or recurring appointments without interrupting you or your team members. They can potentially accept payments without interaction with staff and you can integrate appointment scheduling into your website and Facebook page that can save a huge amount of time and administration.



One key area you can focus on automating is your marketing including growing your list of clients or customers. Technology can automatically add new contacts into your CRM (Customer Relationship Management) system and given your customer database is a key business asset, this can make your business more valuable and saleable. For example, visitors to your website should be encouraged to exchange their contact details for a lead magnet that could be a valuable piece of your content - that could be an e-book, guide, checklist or even a free sample. Their email address is automatically added to your CRM system and you can then segment your database by areas of interest and target your customers with tailored offers. You can then nurture the relationship by sending regular newsletters and offers.

SUMMARY

A business without systems and automation won't achieve its full profit potential. What is holding you back from systemising your business processes? Is it time to let go of the invoicing, bookkeeping, cleaning or some of the administrative tasks? Is your customer database a dog's breakfast and are you using the right technology to automate some of the tasks?

Smart entrepreneurs are always looking for new and better ways to do things. Innovation, software and technology can improve processes and drive better financial outcomes. If you want to strive for continuous improvement you need to adopt new technology to create a more efficient business. With systems and technology constantly changing your 'procedures manual' and associated videos will always be a work in progress. People's roles also change so don't underestimate the value of your procedures manual.

Given we are all adapting to the new normal post COVID, there has never been a more important time to work ON your business, not just IN the business. If you need help to systematise your business we invite you to contact us today.

Buying A Business & Due Diligence

Would you buy a second-hand car for $25,000 without a detailed inspection by a qualified mechanic? Presumably not. Incredibly, many people invest tens or even hundreds of thousands of dollars to buy a business or franchise without a comprehensive review of the business.

The ultimate reason you buy a business or franchise is to generate a return on your investment. That return comes in the form of an annual income stream plus, hopefully, a capital gain when you sell the business. As such, before you sign the contract of sale you need to put the business through a 'due diligence' process. In a sense you are putting the business (or franchise) under the magnifying glass and the due diligence process should examine a range of issues.

The process usually starts with the financial aspects and if the business doesn't pass the financial examination, it's probably not worth investigating the other aspects. Depending on the type and size of the business you may need to review the staff, the business premises and commercial lease, equipment, suppliers and customers. There are so many questions you need to ask in the fact find stage including, but certainly not limited to:

- Are any of the staff related to the vendor?
  - If so, will they stay on post settlement?
  - If so, are they being paid non-commercial rates? (i.e. family inflated wages)
- Are any major customers related to the vendor and will you retain them? Are all their transactions at market rates?
- Have they lost any major clients in the last 12 months?
- Are any suppliers related to the vendor? Will you get the same price and volume discounts?
- Will the major active customers continue buying from you when the business transfers?
- Turnover in recent years, staff costs, profit margins - trending up or down?
- Equipment and Machinery - Inspect and site all items and note the make, model, serial numbers plus service history
- Does this business have any patents or trademarks - are they current and transferable?
- Is the Lease on the property transferable and will the rental be on the same terms?
- Are there any pending legal issues or warranty claims on the products?
- Is a new competitor planning to open nearby?

These questions are just the tip of the iceberg. Research undertaken by Griffith University's Asia-Pacific Centre for Franchising Excellence included a survey of just over 600 current and former franchisees and independent small business owners. The findings regarding due diligence were astonishing. The majority of new independent business owners and franchisees rely on their 'gut feel' when setting up or buying a business. The survey also revealed the level of due diligence undertaken by operators before buying or establishing a new business in Australia was 'unsophisticated' and most business owners have a 'naïve' appreciation of business.

Surprisingly, new business owners only spent a 'relatively low' amount of time on the due diligence process and prospective franchisees tend to spend more time than independent business owners. This apparent lack of time and money invested on due diligence is a big surprise given business owners are often nervous and cautious when buying a business. The research revealed that the average spend by current and former franchisees was in the range of $2,500 to $2,700 while independent businesses owners spent between $1,500 and $2,290. If you're spending at least $200k to buy a business and only invest 1% of the cost to investigate the business you probably haven't done your homework.

The Financial Aspects

While every business is different, your investigation should start with the historical sales figures of the business. Are they

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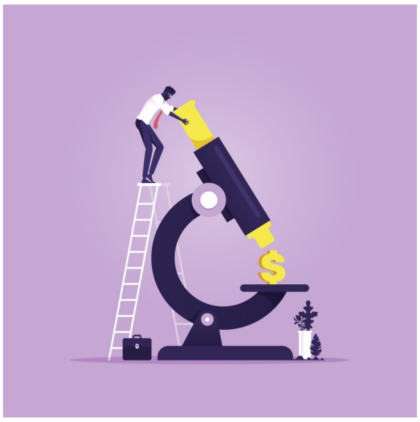
Buying A Business & Due Diligence *(Continued)*



trending up or are they in decline? Is this trend consistent with industry? A business with declining sales or profits is a warning sign and the valuation should take this into account. You buy a business based on current financial data not on the financial potential of the business.

What is the trend with bottom line profit? Is it in decline and can you identify why? Have wages or other expenses blown out? Has the gross profit margin dropped and can you negotiate a better price with another supplier to lift the profit margin?

As a minimum, you need to obtain copies of the financial records for the past 3 years including balance sheets, profit and loss statements and if available, tax returns. Never rely on financial statements generated from the vendor's accounting software program! These are often misleading and nothing but what we describe as a 'computerised shoebox'. Ideally you should obtain certified copies of financial statements from their accountant. As a guide, here is a list of basic introductory financial questions you should be asking:

- Do sales figures reconcile to point of sale records, bank deposits, Business Activity Statements and income tax returns etc.
- Have the records been well kept? Do they break sales down by product or service line?
- What are the sales patterns year-by-year and month-by-month? Is there a seasonal pattern?
- What is the sales mix (the ratio of each product sold to total sales)?
- Are there related party transactions that inflate the profit?
- Are profits adequate to warrant the risk of buying?
- Do a small percentage of customers represent a large percentage of sales? When was the last time they ordered and are they still a customer?
- Are there any one-off sales that won't be recurring? What was the impact of these transactions on the business profit?
- Is there a list of plant and equipment plus fixtures and fittings that the owner intends to sell and where has the valuation come from for these items? Are any of these items under finance (lease or chattel mortgage) agreements?
- Details of any stock being sold with the business and the valuation method. How will it be counted and valued at settlement?
- Does the business have potential for growth and if so, what is your plan to turn that potential into profit? Can you increase sales with the current resources?
- Based on past financial results, have you done a future cash flow projection and profit forecast?
- Are you buying the accounts receivable/debtors? If so, do you have an aged listing of them?
- Has the existing owner received any pre-payments (e.g. deposits) that they should turn over to you at settlement?
- Are there any bad or doubtful debts?

The list of questions can be long and detailed but if you're investing lots of money you really need to know the ins and outs of the business. The trap is, buying a business can be an adrenaline rush and most people are in a hurry to take control of the business. Impatience can lead to a lack of due diligence but to minimise the risk you need to be patient. You need an understanding of the industry and potential game changers like emerging technology and new competitors.

Make sure you know why the vendor is selling the business and always engage a solicitor to review the contract of sale because the devil is always in the detail. You might want the contract to have clauses about retention and restraint of trade so the vendor can't start a similar business around the corner from the current location.

If you're looking to buy a business or franchise, we urge you to consult with us. Over the years we have helped numerous clients value businesses and navigate their way through the due diligence process.

Federal Budget 2022-23 Round Up

Josh Frydenberg delivered the 2022-23 Federal Budget on the 29th March 2022. The Albanese Government has indicated there will be a second Federal Budget to be handed down in October 2022.

Budget 2022–23

Below are some of the main points from the March Federal Budget:

One Off Cost of Living Tax Offset Increased

The March Federal Budget will increase the existing low and middle income tax offset (LMITO) by $420 for the 2021-22 income year only. Accordingly, eligible individuals will receive the maximum LMITO benefit of $1,500 (up from $1,080) to be calculated automatically in their tax return.

Medicare Levy Low Income Thresholds Increased

From 1 July 2021, the Medicare low-income thresholds for seniors, pensioners, families and singles will increase as follows:-

- The threshold for singles will be increased from $23,226 to $23,365.
- The family threshold will be increased from $39,167 to $39,402.
- For single seniors and pensioners, the threshold will be increased from $36,705 to $36,925.
- The family threshold for seniors and pensioners will be increased from $51,094 to $51,401.

For each dependent child or student, the family income thresholds will increase by a further $3,619 instead of the previous amount of $3,597.

NOTE: Legislation is yet to be ratified for these new thresholds.

Extension of the 50 per cent Reduction to the Superannuation Minimum Payment Requirements

The Federal Government announced the extension of the current 50 per cent reduction in the minimum superannuation drawdown requirements for account-based pensions (ABPs) and similar products. This measure was put in place in March 2020 and has now been extended to **30th June 2023.**

This concession was put in place to support self-funded retirees' due to the significant losses in financial markets as a result of the COVID-19 crisis negatively impacting the account balance of the superannuation pension or annuity investments by ensuring they do not have to sell investment assets to fund the otherwise higher minimum drawdown requirements.

Based on this extension, the (effective) reduced minimum percentage factors for ABPs (including TRISs), which are used to calculate the minimum annual pension amount under Superannuation Industry (Supervision) Regulations, are set out in the following table for the **2023 income year**.

Recipients Age	Minimum Percentage (%) Factor	Reduced Minimum Percentage (%) factor
Under 65	4%	2%
65 to 74	5%	2.5%
75 to 79	6%	3%
80 to 84	7%	3.5%
85 to 89	9%	4.5%
90 to 94	11%	5.5%
95 and above	14%	7%

For partial year ABPs and TRISs (i.e. commence or cease part-way through the 2023 income year) a pro-rated minimum pension payment applies. Pensions commencing on or after 1 June 2023 have no minimum pension payment requirement.

Continues Next Page

Federal Budget 2022-23 Round Up *(Continued)*

COVID-19 Tax Concessions

The Government introduced a measure on 13 September 2020 enabling certain eligible state and territory COVID-19 business support programs to be made non-assessable non-exempt income ('NANE') for income tax purposes. This has now been extended until 30 June 2022.

From 1st July 2021 the costs of taking a work-related COVID-19 test (including Polymerase Chain Reaction (PCR) and Rapid Antigen Tests (RAT)) are tax deductible for individuals from 1 July 2021. Businesses will not incur Fringe Benefits Tax (FBT) where they provide employees with COVID-19 tests for employees to attend work. This measure will be in place permanently from the beginning of the 2021-22 income year.

Skills and Training Boost for Businesses

The Budget introduced a skills and training boost to support small and medium-sized businesses (with aggregated annual turnover of less than $50 million) to be able to deduct an additional 20 per cent of expenditure incurred on external training courses provided to their employees (i.e. not on-the-job or in-house training). The external training courses will need to be provided to employees in Australia or online, and delivered by entities registered in Australia.

The eligible expenditure incurred from 7:30pm (AEDT) on 29 March 2022 to 30 June 2022 will be claimed in the 2023 income year, while the 20% boost for expenditure incurred between 1 July 2022 and 30 June 2024 would be included in the income year the expenditure is incurred.

Technology and Investment Boost for Businesses

The intention of this incentive is to encourage small businesses to invest in depreciating assets that support digital adoption technologies (for example, portable payment devices, cyber security systems or subscriptions to cloud-based services).

Small and medium-sized businesses (with aggregated annual turnover of less than $50 million) will be able to deduct an additional 20% of eligible expenditure incurred on business expenses and depreciating assets up to the annual cap of $100,000 for each qualifying income year. This equates to a maximum additional deduction of $20,000 per eligible year.

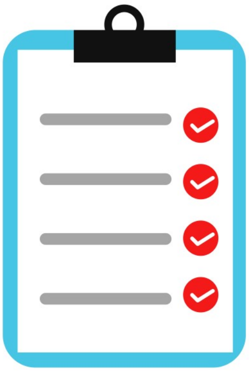
For eligible expenditure incurred by 30 June 2022, the boost will be claimed in tax returns for the following income year.

For eligible expenditure incurred between 1 July 2022 and 30 June 2023, the boost will be claimed in the income year in which the expenditure is incurred.

Electronic Lodgement of Trust Income Returns

The March 2022 Budget evidenced continued focus on business tax compliance and included the digitalisation of trust and beneficiary income reporting and processing by allowing, as of 1st July 2024, all trust return filers the option to lodge income tax returns electronically, increasing pre-filling and automating ATO assurance processes.

Previously excluded from electronic lodgement requirements, this measure acknowledges that trust income reporting has not been automated to the same extent as individual and company tax returns and its introduction should reduce the compliance burden, reduce processing times, and enhance ATO processes.



2022 Tax Return

Client Checklist

June 2022

2022 - Individual Tax Returns

Income

- ☐ Gross salary, wages, allowances, benefits, earnings, tips, Directors Fees and Insurance for lost wages.
- ☐ Income from business activities.
- ☐ PAYG Payment Summaries or Income Statements from MyGov
- ☐ Details of any non-cash benefits received including discount(s) on employee shares or rights.
- ☐ Lump sum and termination payments. All documentation should be provided including an ETP Payment Summary from the employer or fund.
- ☐ Government Social Security payments, including pensions, unemployment and sickness benefits.
- ☐ Details of any CGT asset sales (e.g. shares, business and real estate). Please include dates of, and costs associated with, acquisition and disposal (You can save tax if you qualify for the variety of CGT concessions).
- ☐ Annuities, including allocated pensions or superannuation income streams.
- ☐ Income from trusts and partnerships. Statements of distribution should be provided where appropriate.
- ☐ Rental income.
- ☐ Interest and dividends received from any source including life insurance or friendly society bonuses and any tax deducted. Include details of franked dividends (i.e. imputation credits).
- ☐ Foreign source (employment and pension) income and details of any foreign tax credits, assets or property.

Deductions

- ☐ Investment and property expenses (carefully detail interest and repair claims), supply statements.
- ☐ Work-related subscriptions or memberships (not including sporting or social clubs).
- ☐ Employment related expenditure such as self-education, protective clothing, tools, union fees, uniform and laundry expenses.
- ☐ Motor vehicle expenses, car finance lease statements (include petrol, repairs, parking and maintain a Motor Vehicle Log Book where necessary).
- ☐ Donations of $2 and over.

- ☐ Income Protection Insurance Premiums.
- ☐ For Self-Employed persons, details of any Superannuation Contributions made.
- ☐ Home office expenses where employment requires use of your computer, phone or other device.
- ☐ Tax Agent Fees and other accounting/tax audit fees.
- ☐ Special deductions (Australian films, investment shelters and agribusiness-type schemes).
- ☐ Unrecouped prior year losses.

New Clients

- ☐ Last year's Notice of Assessment and Tax Return (if available)

Rebates

- ☐ Private health insurance annual statement (request from Health Fund)
- ☐ Details of superannuation contributions where no tax deduction can be claimed.
- ☐ Any changes in dependants, children's details, DOB and any Centrelink benefits applicable (income of spouse should also be provided).
- ☐ Details of any income received in a lump sum which was accrued in earlier income years (e.g. assessable pensions).
- ☐ Details of any remote work performed for 183 days or more.
- ☐ HECS-HELP Debt details.

8 Most Common Errors in Income Tax Returns

1. Omitting Interest Income
2. Incorrect or Omitted Dividends Imputation Credits
3. Capital Gains/Losses are Incorrect or Omitted
4. Understating Income
5. Home Office Expenses
6. Depreciation on Rental Property Fixtures and Fittings
7. Depreciation on Income Producing Buildings
8. Borrowing Costs associated with Negative Gearing

2022 - Companies, Partnerships, Trusts and Other Businesses

Income

- ☐ Trading Income.
- ☐ Other Income (e.g. Rent, Interest, Royalties).
- ☐ Stock on Hand at June 30, 2022 (and basis of valuation) – note any obsolete stock.
- ☐ Work-in-Progress at June 30, 2022
- ☐ Primary Producer subsidies (if assessable).
- ☐ Details of CGT assets (e.g. shares and real estate) sold, including dates of, and costs associated with acquisition and disposal.
- ☐ Dividends, including details of franking credits.
- ☐ Income from foreign sources including details of any foreign taxes paid.

Deductions

- ☐ Repairs and maintenance.
- ☐ Salaries, including fringe benefits.
- ☐ Fringe benefits tax paid.
- ☐ Rates, land taxes and insurance premiums.
- ☐ Advertising expenses.
- ☐ Interest on borrowed monies.
- ☐ Deductions relating to foreign-source income.
- ☐ Prepaid expenses (subject to transitional rules).
- ☐ Retirement payments and golden handshakes.
- ☐ Bad debts actually written off during the year.
- ☐ Donations of $2 and over depending on the recipient.
- ☐ Commissions.
- ☐ Legal expenses.
- ☐ Lease or Chattel Mortgage payments on motor vehicles and equipment.
- ☐ Losses of previous years (or intra-group transfers).
- ☐ Superannuation contributions.
- ☐ Subscriptions.
- ☐ Car expenses (remember to include petrol, repairs and parking and maintain a log book where necessary).
- ☐ Tax agent's fees and other accounting and tax audit fees.
- ☐ Royalties paid.
- ☐ Details of the destination and purpose of any interstate or overseas trip. Expenses must be fully documented where travel involves at least one night away from home. Travel diaries should be included where travel exceeds five nights.
- ☐ Research and development expenditure.
- ☐ Bank fees (where the credit or deposit represents assessable income).

Liabilities

- ☐ New loans taken out during the year and their purpose, including any new lease or chattel mortgage agreements on vehicles, equipment or machinery.
- ☐ Statements from the lending authority detailing the opening and closing balances of existing loans during the financial year.
- ☐ Provisions for long service and annual leave.
- ☐ Creditors at June 30, 2022.
- ☐ Details of loan accounts to directors, shareholders, beneficiaries and partners.
- ☐ Accrued expenses (e.g. audit fees, interest payments).
- ☐ Commercial debts forgiven.

Assets

- ☐ Details of depreciable assets acquired and/or disposed of during this income year, including:
  - type of asset;
  - date of acquisition;
  - consideration received/paid.
- ☐ Lease commitments.
- ☐ Debtors at June 30, 2022.
- ☐ Commercial debts forgiven.

Additional Information Required

- ☐ Franking account details/ movements.
- ☐ Overseas transactions, exchange gains/losses.
- ☐ Private companies – remuneration or loans to directors, shareholders and their relatives.
- ☐ Changes to the capital of the company.
- ☐ Whether family trust elections have been made in relation to trusts.

Note: To ensure that you obtain the maximum deductions to which you are entitled and in consideration of the penalty provisions, FULL DETAILS of any claim should be provided and supporting documentation made available. For employee taxpayers and for travel and motor vehicle claims by self-employed taxpayers, documentation must be a receipt, tax invoice or similar document which contains certain details. For other taxpayers, documentation may comprise receipts, dockets, diary notations or reasonable and supporting estimates.