INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

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5 ways small business owners can cut their tax bill

Tax law is complex, so it's always worth speaking to your accountant or registered tax agent to be clear on what your business can claim in the run-up to June 30.

With this in mind, here are five ways to make the most of year-end business expenses to trim your business tax bill.

1. Pay employee super contributions before June 30 – Employee contributions owed under the superannuation guarantee (SG) can be paid quarterly, though some super funds, awards and private contracts require employers to pay more frequently.

As a guide, the Tax Office notes that super contributions accruing from April 1 to 30 June don't have to be paid until July 28. However, making payments before June 30 can supersize tax deductions.

SG payments need to be received by each worker's super fund or the Small Business Superannuation Clearing House by June 30, but most funds request payments be made five to seven days before June 30 to be processed in time for the financial year cut-off.

"If you are bringing forward the contributions you may wish to check the timing of super paid last year to make sure you are not contributing 13 months or five quarters in bringing it forward, as you could push an employee over their contribution limit of $27,000."

2. Prepay expenses – Bring forward tax-deductible expenses such as stationery and office supplies by stocking up and paying before June 30. Look for other expenses you can pay in advance such as insurances, subscriptions and rent, which may be claimed in the current financial year.
On the flipside, consider deferring income by holding off invoices until July 1. That way, revenue is included in the next financial year.

3. Organise repairs, and maintenance – A leaky tap in the tearoom, a few chipped tiles in the toilets or a photocopier that's misbehaving should all be repaired ahead of June 30 so the cost can be claimed in the current financial year.

4. Reviewing trading stock – The cost of goods sold is based on opening stock plus purchases less the value of closing stock. Small businesses with annual turnover below $10 million can follow simplified trading stock rules, which make a formal stocktake unnecessary if trading inventory didn't change in value over the tax year by more than $5000.

Even if your business ticks this box, it's worth,

casting an eye over stock to identify any damaged, obsolete or unsaleable inventory. By writing it off now you lower the value of closing inventory, which can lift the cost of goods sold for the year.

5. Invest in new equipment – To get businesses spending on capital equipment during Covid, The Federal Government introduced a tax break known as “temporary full expensing” (TFE). It lets businesses claim the full cost of eligible capital assets instead of depreciating them over time.

The TFE works a bit like the instant asset write-off. A key difference is that the instant asset write-off was scaled back to $1000 from January 1, 2021, while the TFE has no limit on deductible asset prices. The exception is claims for passenger vehicles designed to carry less than one tonne and fewer than nine passengers. These have an upper limit for tax in 2021-22 of $60,733.

“Take care with respect to motor vehicles, as to be eligible the taxpayer needs to be using the car for principal purpose of carrying on a business before they can access the rules”, cautions Harrington. “You should also consider if fringe benefits may apply to a car purchased within an entity”.

Businesses can use the TFE to claim an immediate tax deduction for fixtures and fittings, technology such as computers or EFTPOS systems, plant and equipment (including tools) office furniture and motor vehicles (including utes and vans).

To be eligible, businesses must have an aggregated annual turnover of less than $5 billion. If the equipment purchased is second-hand, annual turnover can’t be above $50 million.

Any deduction you can claim under TFE must also be apportioned between business and private use – something that can especially apply to motor vehicles.
Source: Money Magazine

Reviewing your personal insurance policy: when, why and how

Insurance might not always be top of mind, but it’s important to review your policies regularly to make sure you’ve got the right cover

Whatever your mix of cover – life, total and permanent disability, income protection and trauma – insurance can be important part of protecting yourself and your family, now and into the future.

Thanks to the ability to pay for insurance through super, an estimated 94 per cent of working Australians have some level of life cover1. So it’s a good idea to review your insurance regularly to make sure you have the right type of cover – and enough of it.

You probably don’t think about your insurance regularly, but there are certain times when you should consider updating your policies to make sure they still reflect your lifestyle and insurance needs.

When and why you should review your insurance

- Taking on a mortgage to buy a property
- Having children
- Getting married
- Upsizing or downsizing your home
- Getting a pay rise or take a pay cut
- Starting a business
- Experiencing a change in your health or lifestyle
- Paying off your mortgage
- Stopping supporting financially dependent children
- Joining a new super fund that may provide automatic insurance cover
- Retiring.

These milestones mark important times to review your insurance, including the amount of cover you have and whether your beneficiaries (those who will receive your insurance in the event of your death) are up to date.

How to review your insurance

Insurance is flexible and can be changed to align to your needs. Below is a step-by-step guide to reviewing what you have.

Step 1: Read your insurance contract – Refer to your product disclosure statement (PDS) and read it to fully understand what you’re covered for (death, or injury for instance) and compare this against what you’d ideally like to be covered for.

Step 2: Check the insurance policy expiry date – Check if your insurance policy has an expiry date, and if so, make note of when it is so you’re not caught off guard. It can be a good idea to set yourself a reminder a month or two before it’s due so you can contact your insurance provider ahead of time.

Step 3: Know your beneficiaries – An insurance beneficiary is the person, or people, who will receive your insurance payout in the event of your death. It’s important to make sure your beneficiaries are up to date so your money ends up in the right hands.

Step 4: Check if you have enough insurance – To help you work out the right level of insurance cover consider the following questions.

1. How much money would your family have if you were to pass away or become disabled? Consider the amount of money you have in super, savings, shares and other assets, and existing insurance policies as a starting point.
2. How much money would your family need if you were to pass away or become disabled? Consider the size or your mortgage and other debts you have, as well as other costs such as childcare, education and day-to-day expenses you may be covering.

The difference between these figures should provide some guidance on the amount of insurance cover you may want to have. However, you might need to compromise between what you'd like and can afford.

Step 5: See if you have any other insurance policies – Like many Australians, you may have insurance through super. So it's a good idea to check this against other policies you might have outside super.

Then compare your cover, check whether you have any insurance double ups – if you have more than one super account with the same type of insurance, you may be paying for more insurance than you need.

Something to note on your TSC insurance, you'll most likely only be able to claim up to 75% of your pre-disability income, regardless of whether you have TSC cover within multiple super accounts.

Step 6: Compare insurance providers – If you're not sure whether you're getting the best deal, you might want to compare providers. Remember, there are other considerations to take into account aside from reduced premiums, such as what level of cover you get, any exclusions (like the treatment of pre-existing medical conditions) and waiting periods.

Also keep in mind if you do cancel your insurance, you might lose access to features and benefits, and you might not be able to sign back up at the same rate or with the same level of ease.

It's also important to disclose your situation to your insurer honestly, or the policy might be invalid if you do need to make a claim.

Step 7: Reduce or manage your insurance premiums – If affordability is a major concern, speak to your super provider or insurer depending on what type of insurance you hold, to find out how you can manage your premiums without losing your policy. You might be able to:

- reduce the amount you're insured for
- change how often you make a payment (if you don't hold insurance inside super)
- adjust your waiting and benefit periods.

Changing your insurance policy can be complicated, so it could help to speak you're your financial adviser. Source: AMP Insights

Can I set up a super fund for my kids?

It's possible to set up a super fund for under – 18s. The bigger question is, should you?

According to Australian Tax Office data, over 40,000 boys and more than 35,000 girls aged under – 18 already have their own super accounts.

What's more, they're punching above their age when it comes to healthy balances.

The average balance for a boy aged under 18 is $14,170 – almost double the average super savings of $8,072 for males aged 18-24.

So we're talking about some pretty well – heeled kids.

Not all super funds offer accounts to under – 18s, but some, such as Sunsuper, do.

Setting up a super fund for kids

Where a fund accepts minors, the process of account opening is reasonably straightforward. A grown-up will need to complete the membership paperwork, and as minors aren't legally able to sign contracts, an adult will need to provide proof of being a parent or legal guardian and authorise the child's membership application.

It's also worth organising a tax file number (TFN) for the child as part of the account opening process. The Tax Office cautions that without a TFN, a super fund will not be able to accept any non-employer contributions.

Super may not be ideal for giving kids a financial head start

Well meaning parents or grandparents may consider setting up a super fund for a child as a way to build a youngster's future wealth. And yes, the compounding returns could be impressive by the time the child reaches retirement age.

But there are issues to consider.

While parents and grandparents can usually contribute to a child's super fund, they won't normally get a personal tax deduction or offset for the contribution.

An exception may be where the chid is employed in a family – owned business.

The deal-breaker can be that children can't generally access their super until they reach age 60. That could be half a century away. Chances are, youngsters will appreciate more accessible source of cash as they grow up, to fund goals like TAFE or university studies, a gap year, or to buy a first home.

When it makes sense to set up super for kids

It's a different story if your child is starting a job.

Under-18s who earn $450 or more (before tax) in a calendar month and work more than 30 hours in a week, are entitled to employer-paid super contributions.

The $450 per month threshold is set to be removed from July1, 2022, but there has been no mention of any change to the 30-hours per week requirement.

So, if your child has a part-time job where they work just a few hours weekly, they may not be eligible for employer super contributions. That said, it could still be worth setting up a super account as the child may work longer hours during school holidays.

What to watch for

If you do set up a super fund for a child, be sure to keep an eye on fund fees, which can eat way at low balances.

Student Super, which focuses on super for younger Australians, charges zero fees on balances under $1,000 plus a 50% discount on admin fees on balances between $1,000 and $4,999.

The benefits of starting a child's super fund

One of the biggest pluses of setting up a super fund for kids, especially as they approach workforce age, is the chance for youngsters to take ownership of their super and stick with the same fund for life.

It's also an opportunity for parents or grandparents to have conversations with kids about what super is, and why it matters – even if the money can't be accessed today.

Source: Money Magazine

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