

Strategies for a taxing time



In an economic downturn, cash is more important than ever. Michael Georghiou of independent accounting, auditing and consulting firm, MGI Brisbane, suggests ways to save cash by legitimately reducing your tax burden.

If ever there was one saying that rings true in slow times it is that 'cash is king'! One of the simplest ways to save cash is to legitimately reduce your tax burden.

The tax act doesn't require businesses to pay the maximum tax amount, only the legally required minimum. With this in mind, we look at some tax tips you can use to reduce your tax bill, and keep your hard earned cash.

Make sure you can prove your claim

Make sure you have receipts for the expenditure you intend to claim as a deduction. Remember the key to a deduction is the ability to demonstrate the expense was 'necessarily incurred' in order to derive your income.

If the expense is incurred partly for private reasons and partly for business, you will be able to claim the business percentage. However, you will be required to demonstrate how you came up with that percentage, which is usually determined through the keeping of a diary or the highlighting of the business use through identifying those items in an invoice that relates to your business.

Work-related expenses

The Australian Taxation Office's (ATO) compliance program almost always focuses on employees over claiming work-related expenses. Part of the monitoring technique used by the ATO is comparing your claims against industry

averages. If your claim for travel, uniforms, subscriptions, union fees or other work-related expenses is higher than the industry average (as a percentage of your income), the ATO will probably review your return.

Dividends and interest

The ATO uses data matching to ensure that your dividend and interest income is correctly returned and matches that provided by external sources, such as banks.

Don't forget to include the imputation credits from dividends both as income and as a tax credit, and ensure that you retain the dividend and bank statements as supporting documentation – in case you are audited.

Deferring income and bringing forward expenses

It makes sense to defer income and bring forward expenses, however there are some complex rules surrounding these areas.

You should check with your accountant before you go down this road. However, if your ute needs new tyres or a service, why not get it done before year-end and increase your work-related deductions.

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Depreciation

Go through your depreciation schedule and scrap any items that are obsolete.

Make sure you are using the highest depreciation rate available for the asset and take advantage of the government's new investment allowance – with allowances of up to 50% it makes tax sense to seriously consider those asset purchases!

Also, consider the use of a low value pool, which has substantially higher depreciation rates for items with a value of less than \$1,000.

Deductions for employee superannuation contributions

To claim a deduction in the 2008/2009 tax year for the superannuation contribution you pay for June 2009, the amount must be paid by 30 June 2009.

Even if you do not know the final amount owed for the month, it is often worthwhile to project the likely amount and pay it to the superannuation fund before end of June. That way you can claim the deduction in this financial year.

Given super is a legal obligation – why not pay it before year-end and get the deduction?

Other superannuation strategies

Don't forget the government's co-contribution scheme for lower income earners who make an after tax superannuation contribution. This could earn you another \$1,500 in super!

Also, you might be able to make a spouse contribution (if they earn less than \$13,800) and end up with a tax offset of up to \$540!

Self employed workers can make a 100% deductible contribution of \$50,000 to their super if under 50 years of age or \$100,000 if 50 years or over by 30 June 2009.

In passing, make sure you consider all the above tips in light of the government's recently released budget.

Finally

It pays to have your tax return prepared by an accountant who understands all the implications of today's tax law, and so you don't pay more tax than you should. Don't find yourself in trouble with the ATO.