

Part 3: tax tips for your small business

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In the third of our three-part series, we look at actions small businesses can consider to reduce their tax for 2017.

This article is all about income. As with accelerating deductions, deferral of income can result in a slightly lower personal top marginal tax rate next year and provide a cash flow benefit. Of course, deferring a taxable profit only works if the relevant entity is paying tax.

Owner remuneration

Income of family members from a business depends on the ownership structure (e.g. sole trader, partnership, trust or company). Wages, dividends or profit share may, in certain circumstances, have different tax outcomes to

the recipients. It is therefore worthwhile to ensure you are aware of what your personal tax position is likely to be and plan appropriately.

Where wages or other forms of income are being paid to other family members, it's worthwhile considering if a minor under 18 years can commence a full-time occupation prior to 30 June as this can provide them with the lower adult tax rates.

Owners should also consider repayment of any "Division 7A" loans (these are borrowings from a company) prior to year-end. Repayment this year can avoid a dividend (and resultant personal tax) that is usually required under the relevant rules. And if you have a discretionary trust involved, distribution resolutions should be completed prior to year-end.

Income deferral

Income deferral could be as simple as delaying the issue of invoices, however it is often necessary to review customer contract terms to determine when income becomes assessable. The general rule is that income becomes assessable when it is "derived", typically meaning non-refundable or a present debt exists.

Despite being derived, income may also be non-assessable if it is not "properly referable" to an income year. In practice this usually means that where services have been paid for but are yet to be performed they can be considered non-assessable "unearned income".

Such amounts should be accounted for in a separate balance sheet account, which can be made as an adjustment after year end but they need to be identified. This can include a proportion of a receipt where a service is only partially performed. So, if you receive 20% of a contract up front but will not start work on it until July, that amount will be excluded from this year's taxable income.