TAX MATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

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LMS ADVISORY PTY LTD

Bad debts for tax purposes

It is an unfortunate fact of business life that sometimes you will not be paid in full for work you have done.

When this happens you have incurred a bad debt, and it is a very frustrating experience. The silver lining to this situation is that there are some tax breaks that can come along with a bad debt.

The first thing you have to do is make sure that the debt can be officially considered as bad for tax purposes.

First, you cannot have 'forgiven' the debt which means it must still be formally recorded as an outstanding amount owing to you and unrecovered. It is also necessary for you to demonstrate that you have taken reasonable steps to recover the amount.

In some cases this may involve legal action, depending on the size and type of debt. You must also make a written record of the decision to write off the debt, prior to the end of the financial year.

If the amount owed has been included in your assessable income then you may be able to claim the bad debt as a tax deduction, thereby reducing your tax liability.

If you pay GST on an accruals basis, you may also be able to claim back a GST credit. If you have paid GST on a sale but did not end up receiving any payment for that sale then you are able to adjust your BAS accordingly. You can make the adjustment to your BAS in the period when the debt was written off, or twelve months after the debt became due (whichever is relevant to your situation).

If you have written off part of a debt as bad, but recovered part of the amount, then you are able to claim a tax deduction on that portion of the debt. The same concept applies for GST adjustments.

The procedure for writing off bad debts can be complicated and it is advisable to seek professional advice in the process, especially in order to make sure that your debt can be officially recorded as bad.

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ATO cracking down on dividend washing

The ATO is preparing to enter into the second phase of its dividend washing compliance program.

Over 3000 individuals and entities have now received written correspondence requesting that they amend their returns to rectify dividend washing benefits.

Taxpayers who have gained a tax benefit from dividend washing transactions are being asked to self amend their tax-returns for the 2011, 2012, 2013 and 2014 financial years. There will be no penalties for taxpayers who comply with this direction.

Dividend washing occurs when a shareholder sells and then immediately repurchases an identical bundle of shares, and in the process claims two sets of franking credits when in substance they have only held one set of shares.

When the shares are first sold the holder retains the franking credit. This is known as selling shares ex-dividend. The investor then repurchases an identical set of shares cum-dividend (with the franking credits), thereby receiving two sets of franking credits.

Dividend washing transactions occur on the ASX trading market, where shares can be sold without dividends. Taxpayers who have engaged in dividend washing are unable to claim the tax offset gained from the second set of shares. The ATO will continue to monitor dividend transactions and apply the divided integrity rule to prevent future divided washing.

Small business CGT concessions

There are some capital gains tax (CGT) concessions available to small business owners that can be used to minimise tax liability when you dispose of assets.

These CGT concessions can be extremely effective. You can apply as many as you are entitled to until your CGT bill is reduced to zero.

In order to qualify for these exemptions there are some basic conditions that need to be met:

- The total value of your business assets must not be more than $6 million or your turnover must be less than $2 million per annum
- You must incur a capital gain when you dispose of the asset
- The asset must be an active business asset

For a business asset to be considered as 'active' it must be used in the course of carrying out your day to day business. An asset that collects income for your business but is not used by your business directly is not classified as an active asset.

In order to be eligible to claim any of the CGT concessions the asset must have been active for at least 7.5 years, or half of the time that you have owned it (whichever is the shorter period).

There are four CGT concessions that are available:

1. The 15-year exemption: If your business has held the asset for over 15 years, and you are over the age of 55 and are retiring, then your entire CGT liability can be disregarded under the 15-year exemption rule.

2. The small business rollover: If your business purchases a replacement asset within two years of disposing of an old one, you can defer your CGT bill until you dispose of the replacement asset.

3. The 50% active asset reduction: If you dispose of an active asset and the 15-year exemption does not apply then you may be eligible for a 50% reduction on your CGT bill.

4. The CGT retirement exemption: A total CGT exemption of up to $500 000 is available to small business owners over a lifetime, and can be used to offset any CGT remaining after the other concessions have been applied. If you are under the age of 55, you must contribute the amount to your superannuation fund.

Travel and car related tax deductions

Working out deductions on cars and travel related expenses can be an extremely complicated area of tax compliance.

For individuals, car and travel related expenses can be one of the more difficult calculations that you will need to make each year.

Car related expenses means the costs that you incurred buying, leasing or hiring a car that were directly work related.

Travel expenses refers to any expenses you incurred in the course of travelling to and from work related engagements. This may included petrol costs, short term car hire, parking fees, and meals and incidental expenses incurred whilst staying away from home.

However, travelling between your home and your workplace is not considered work related travel, even if you do minor work related tasks on your journey.

You can only claim work related travel and car expenses for trips between your work and home if you used your car because you had to transport bulky equipment related to your job, your work for your employer originated at home, or if your workplace regularly shifted throughout the day.

If you have more than one job then you can claim car and travel deductions for any trips taken between the workplaces.

It is also possible to claim deductions for trips taken between your workplace and alternative sites whilst still on full duty, and trips between alternative sites and your home.