Tax Tips

In an economic downturn every penny counts. *Michael Quinn* gives brokers sound advice on minimising their taxes

As much as we try to avoid thinking about it, 30 June is just around the corner and it will soon be time to start thinking about all things tax.

In these times of economic downturn, business owners are continually looking for opportunities to save money wherever possible. There are a number of things that mortgage brokers, as business owners, can do before 30 June which may assist in legally minimising their tax obligations.

Consider some of the following:

- Contribute the maximum to retirement/superannuation accounts: Super funds have taken a battering of late, but they remain a solid long-term investment strategy for funding a retired lifestyle and should not be discounted. They can grow to a substantial sum over time and can result in future tax-free income, exemptions from CGT and protection from creditors. By contributing up to the annual age-based limits you can potentially reduce the taxable income of your business, and therefore decrease the amount of tax you are liable to pay.
- Prepaid expenditure: If you are eligible (that is if your business has an aggregated turnover of less than $2m) then it may be possible for you to pre-pay for items such as rent, insurance premiums or advertising up to 12 months in advance, and then claim those payments as an immediate deduction. Businesses that are not considered small business entities (that is, with aggregated turnover greater than $2m) may still be able to claim a deduction for prepaid expenses but must apportion the deduction over the service period or 10 years (whichever is shorter).
- Realise capital losses to reduce capital gains tax: To save on CGT and free up money for more suitable investments, you may wish to consider selling poor performing assets that no longer suit your circumstances. By doing this, you can use the capital loss you have incurred to offset a realised capital gain from another asset in the same financial year.
- Purchase equipment: If your business revenue is less than $2m, then any assets purchased costing less than $1,000 can usually be claimed as an immediate deduction. If you think that you may be making such purchases in the near future it would be wise to do so before 30 June in order to receive the benefit in this year's return. Additionally, the government's proposed Small Business and General Business Tax Break may also bring additional tax benefits to some business owners.
- Defer Income: If you believe that you will be in the same or lower tax bracket next year, then it may be in your interest to consider deferring some income until the following year. By doing this you can potentially save yourself from being pushed into a higher income tax bracket and being hit with a bigger tax bill.

Perhaps one of the most important tax-related issues to be aware of is that in the past, mortgage and finance brokers have been intently scrutinised under the audit microscope of the ATO and are often highlighted as professions to watch in relation to tax compliance and conduct issues. As with most tax problems that are identified, this is not necessarily a reflection on the workings of the entire group, but the identification of a few bad eggs does increase the scrutiny.

For this reason it is extremely important for brokers to maintain accurate business records and to also adhere to their tax lodgement and payment obligations. This not only makes the job easier come tax or BAS lodgement time, but it makes the business dealings transparent. And should the time come that you do get audited, you can be confident that everything is in order.

Cash flow also seems to be a common issue for many brokers as income and commissions can fluctuate greatly from one period to the next. It is important to have, and regularly review and update, a cash flow budget. This will help you to see the money coming in and going out of your business and will help you to plan for those major expenditures, such as GST or income tax, to ensure that you are not left short.

Cash flow problems can rear their ugly head in many forms. Some signs that you may need to take action on your current cash flow situation include steady declines in profit margins, heavy reliance on borrowed monies and the inability to pay creditors and meet tax payment obligations.

Keeping accurate records and regularly producing and analysing reports allows business owners to identify problems and initiate rescue procedures before the problem gets out of control.

There are a number of tax benefits that are available to business owners and knowing your entitlements can significantly reduce the amount of tax you are liable to pay. Some of the ideas above may bring considerable tax advantages to your current business situation. Remember that it is important to seek professional independent advice to come up with the tax plan that will help you to legally minimise your tax obligations and maximise your business potential. **MPA**

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