

The Australian



Don't be mired by fear

- Peter Switzer
- June 27, 2008 12:00AM

IF that tax-saving strategy you've been offered doesn't quite sound right, it probably isn't

With just days to go before the tax deadline at the end of the financial year arrives, accountants argue it's not too late to get your business house in order to save on your tax bill.

But the taxman warns to be careful of schemes that are big on tax saving promises.

In recent weeks, the Australian Tax Office has put out "not happy" tax alerts about two types of tax-reducing schemes.

One uses loans to return profits to shareholders to diminish the tax hit. The second involves end-of-financial-year pre-payments for services due to be delivered in the ensuing year.

Sydney-based accountant and chief executive of accountantsRus, Adrian Raftery, says tax planning should be a 365-days-a-year commitment and not just a one-month rush, but there are legal tactics you can take if your tax bill looks big.

Deferring income and bringing forward expenses is a standard trick. "With income tax cuts projected next year, it is a good idea to try and defer your taxable income to next financial year," Raftery says.

"If you have expenses such as professional membership subscriptions due on July 1, pay them before June 30 to reduce this year's tax. For those in business, you may want to defer your invoicing until next tax year." Simply have a good look around the business to see what has been ignored.

"Physically writing off bad debts and obsolete stock and plant before June 30 to get a tax deduction could be a smart move," Raftery says. "However, don't spend money purely for the sake of a tax deduction as a business will only benefit by the tax rate and if it's a company, it will be generally 30 per cent."

For smaller operators, the Entrepreneurs' Tax Offset for businesses with turnover less than \$75,000 is a claim many businesses miss out on because they do their own tax.

Raftery might be talking his own book but he says accountants make up for their charges.

"Great accountants are like quantity surveyors -- they know where the boundaries are," he says. "By not using an accountant, you could be paying too much in tax or you could be leaving yourself open to a visit from the ATO auditors. And their fees are tax deductible."

He thinks too many taxpayers -- business and personal -- don't know the tax rules and end up paying more tax than they should.

"If your income is under \$28,980 and you contribute \$1000 post-tax into your super fund, the Government will match it with a further \$1500," he says.

"It amazes me how few people actually take advantage of this great benefit of free money."

Business owners with non-working spouses could explore this option. And parents wanting to kick along their working children's commitment to super could make contributions to access the \$1500, courtesy of the Government. Chartered accountant Joe Kaleb of Australianbiz.com.au thinks business owners should be looking at super as a big tax gift from the Government.

“Where the business operates through a company or through a family trust, the entity can claim a concessional superannuation contribution for a director or employee of either \$50,000 or \$100,000 per annum based on the relevant age of the person on June 30,” Kaleb says.

In addition, individuals under the age of 75 are now entitled to contribute up to \$150,000 a year in non-concessional or non-deductible contributions.

Kaleb says this is a useful strategy where individuals have surplus cash as the funds can be invested in a tax-effective manner by the superannuation fund.

Rafty is not worried about agribusiness schemes used to reduce tax bills. “These investments generally have 100 per cent tax deductibility but make sure there is an ATO product ruling,” he says. “Unlike investments in shares or properties, if you invest say \$50,000 in these types of investments you will get a tax deduction for \$50,000.”

He says these can be used for levelling out any tax payable on any capital gains made.

“Returns in this sector over the past decade have been better than other asset classes and would sit nicely in any diversified portfolio,” he says. “These could be the last year that these are available for a tax deduction.”

Rafty suggests you look at the independent research reports on the scheme, seek expert advice and focus on the net investment return rather than the tax deduction.

On the schemes for which the tax office has sent out alerts, Tax commissioner Michael D'Ascenzo has made a firm warning that if it doesn't sound right, it probably isn't. “People marketing these schemes should also be aware that they could face penalties under the promoter penalty laws,” D'Ascenzo says.

Sydney accountant Maurizio Zappacosta is also wary of end-of-year schemes. He says the ATO could disallow transactions leading to a debt and a penalty. And when this is added to any related loan, it could end up being 200 per cent of the original tax due, without the scheme.

Peter Switzer is a founding director of Switzer Business Coaching

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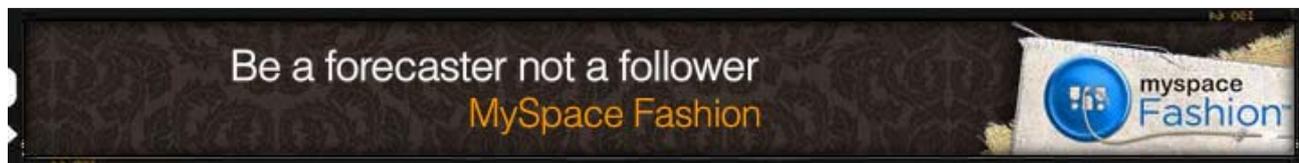
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