



ENews

SMALL BUSINESS TAX CONCESSIONS

Until recently, if you wanted to access a range of small business tax concessions, your first hurdle was trying to work out whether your business was in fact a “small business” for the purposes of a particular concession.

For those of you who have already tried to access these concessions, you know that the factors identifying an eligible small business differed from concession to concession.

The good news is that from 1 July 2007, the entry point for accessing small business tax concessions has been streamlined.

Simplified entry point

From 1 July 2007, most small businesses with an aggregated annual turnover of less than \$2 million will be able to access a range of small business tax concessions that meet their business needs.

Set out below is a list of the small business tax concessions to which the new \$2 million entry threshold applies from 1 July 2007.

Income tax concessions

Simplified trading stock rules - *you can choose not to conduct a stocktake to account for changes in the value of your trading stock if there is a difference of less than \$5,000 between:*

- *the value of your stock on hand at the start of the income year; and*
- *a reasonable estimate of the value of your stock on hand at the end of the income year.*

If you are able to use the simplified trading stock rules, the value of your closing stock at the end of the tax year will be the same value as your opening stock for that year.

Simpler depreciation rules - you may be able to choose to pool your assets and claim one deduction for the whole asset pool.

Prepaid business expenses - you may be entitled to claim an immediate deduction for prepaid expenses (where the payment is for a period which is 12 months or less and ends in the next income year).

Entrepreneurs' tax offset - you may be able to reduce your tax payable by up to 25%.

Capital gains tax concessions

Set out below is a list of the main small business CGT concessions. It's best to get advice about how these concessions may apply in your particular circumstances because their application can be tricky.

CGT 15-year asset exemption - *you may be able to choose to be exempt from CGT when you sell a business asset you have owned continuously for 15 years (if at the time you are at least 55 years old and retiring, or you are permanently incapacitated).*

CGT 50% active asset reduction - *you may be able to choose to reduce your capital gain by 50% on the sale of an active asset (this reduction can apply in addition to the general 50% CGT discount for assets held for twelve months or more).*

CGT retirement exemption - *if you are 55 years or over, you may be able to choose to be exempt from CGT on the sale of a business asset up to a lifetime limit of \$500,000. If you are under 55, this payment must be rolled over into a complying superannuation fund or an eligible retirement savings account.*

CGT roll-over provisions - *you may be able to choose to roll-over all or part of a capital gain from the sale of a business asset if you acquire a replacement asset or make improvements to an existing asset.*

Tip

If your business doesn't satisfy the \$2 million small business threshold test, but the net value of its CGT assets is less than \$6 million, it will still be able to access the CGT small business concessions, subject to satisfying any other eligibility criteria.

GST concessions

Accounting for GST on a cash basis - *you may be able to choose to account for GST in the reporting period when you receive payment for a sale that you have made. Similarly, you also claim GST credits in the reporting period when you actually pay for your purchase.*

Paying GST by instalments - *you may be able to choose to pay your GST by instalments (an amount worked out by the ATO, which you can vary, each quarter if appropriate). If you do go down this route, you will also need to lodge an annual GST return reporting your total GST liability for the year.*

Apportioning of GST input tax credits - *you may be able to choose to account for the private portion of your business purchases annually for GST purposes rather than each time you lodge an activity statement. If you go down this route, you can initially claim the full GST input tax credit for a business purchase and make a GST adjustment for any private portion in any later activity statement up to the one that covers the due date for lodging your income tax return.*

Quarterly PAYG payment concessions

PAYG instalments based on GDP adjusted notional tax – *companies and superannuation funds, with business and investment income under \$2 million in their last lodged tax return, can choose to use the gross domestic product (GDP) amount option when paying quarterly PAYG instalments. The previous threshold for this benefit was \$1 million. This option is also available to all PAYG individual payers regardless of the amount of their business and investment income.*

Tip

If you are eligible to opt for the GDP adjusted notional tax method for paying PAYG, it means you pay the quarterly PAYG instalments determined by the ATO (you can also vary these instalments). You don't have to work out your actual instalment income for PAYG purposes each quarter - your actual income tax will be worked out in your annual tax return.

FBT concessions

FBT cark-parking exemption – *From 1 April 2007, an eligible small business entity is exempt from fringe benefits tax on car parking provided to its employees on its premises.*

If your business doesn't satisfy the \$2 million small business threshold test, but its ordinary income and statutory income is less than \$10 million, it will still be able to access this concession.

Other concessions

2 year period for amending assessments – *if you are a small businesses with less than \$2 million turnover, the ATO may only have two years to review and amend your tax returns (instead of a four year period). This doesn't apply to some small businesses and will never apply in situations of tax avoidance, fraud or evasion.*