

## Concessions for Small Business Entities

From 1 July 2007, the Australian Taxation Office introduced a number of taxation concessions that are available for small businesses.

### Who is a 'Small Business Entity'?

Any business which has an aggregated turnover less than \$2 million (excluding GST) are classed as 'Small Business Entities' and may be eligible for a range of small business concessions.

A business' turnover is the amount of income earned throughout the year and is the total amount of income as opposed to net income or net profit. However it does not include the GST component of your sale prices.

The aggregate turnover also incorporates any turnover of entities you are connected to or affiliated with during the same financial year.

### What are the small business concessions?

The small business concessions available to small business entities cover taxation issues from capital gains, tax deductions and tax offsets to GST. Please find below details in respect of these business concessions.

#### Tax Deductions

##### Simpler trading stock rules

You will not be required to conduct a stock-take at the end of the year if your trading stock did not fluctuate by more than \$5,000. You can, however choose to do this for your own records which will usually involve a complete stock-take at the end of each financial year.

##### Immediate deduction for certain prepaid business expenses

If your prepaid business expense covers a period of 12 months or more and ends in the next financial year, you can claim an immediate deduction for the full expense amount. If you choose to not apply this concession you will need to apportion the expense relative to what was used in the current financial year.

##### Simpler depreciation rules

**Low cost assets** – as a general rule, it is possible to claim immediately the asset's cost used for business if the cost of the asset is less than \$1,000.

**Assets with an effective life of less than 25 years** – You can group these assets together into a general pool and depreciate them as one asset rather than preparing individual calculations. These assets are depreciated at 30%.

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**Assets with an effective life of 25 years or more** – These assets may also be grouped together in a long life pool. Again, this pool can then be treated as a single asset and depreciated at 5% rather than calculating depreciation values for each individual asset.

**Assets acquired during the income year** – Regardless of when throughout the year these assets were purchased and allocated to a pool, their depreciation deduction is at half the pool rate, being 15% or 2.5%.

## **Tax Offsets**

### Entrepreneurs' Tax Offset (ETO)

If your turnover is less than \$50,000 in a year you can apply for a 25% tax offset. This offset is applied to the income tax expense you are paying on your business' taxable income. For businesses that earn less than \$75,000 this concession may still be applicable however the tax offset is at a reduced rate. Please note this tax offset does not apply to other income not related to the business such as salary, wages, dividend income, rental income etc.

## **GST**

### Accounting for GST on a cash basis

You are not required to report the GST on a sale or purchase in your Business Activity Statement until the point where the money is actually received or spent by your business. This is the same for purchase expenses which can be recorded at the actual time of payment when using the cash basis.

### Paying GST by installments

GST installments can be made throughout the year where the GST installment amounts are determined by the Tax Office and can vary each quarter. You will then have to lodge an annual GST return to reconcile the actual net GST of your business to the GST installments paid to the Tax Office during the year. If you have overpaid GST throughout the year the excess will be refunded to you. If you have not paid enough GST then you will be required to pay the remaining GST to cover the shortfall.

### Annual apportionment of GST input tax credits

You can claim the full GST amount for items on your activity statement where the item has been partially used privately. A single adjustment will need to be done to account for private use at the end of the year. This adjustment will either increase the amount of GST payable by you or decrease the refund payable to you for the tax period in which the GST was paid or collected.

## **Fringe Benefits Tax**

### Fringe benefits tax (FBT) car parking exemption

This concession allows employee car parking which falls within the FBT provisions to possibly be exempt. Without this concession you would have to pay FBT because car parking is a benefit which you are providing to the employees of your business.

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## Capital Gains Tax

To be eligible for these small business capital gains concessions your business must first satisfy the small business conditions. Please refer to our fact sheet 'Capital Gains Tax Concessions for Small Business' for more information in respect of these conditions.

### CGT 50% active asset reduction

If you have owned and used an active asset to conduct your business you may be entitled to the 50% active asset reduction which reduces the capital gain by 50% when the asset is sold. An individual taxpayer is also entitled to the general 50% capital gain discount if the asset has been owned for more than 12 months.

### CGT retirement exemption

An exemption for capital gains of up to a lifetime limit of \$500,000 can be applied if you qualify for this exemption. This exemption can be applied to the remaining capital gain after using the small business 50% active asset reduction and/or the general 50% capital gain discount. To qualify for this exemption you must satisfy the small business conditions and a significant individual test. You must also keep a written record of the amount you have chosen to be exempt. If the individual who utilises this exemption is under 55 years of age the exempt amount has to be paid into a complying superannuation fund. If the individual who utilises this exemption is over 55 years of age they have no restrictions and are able to utilise the proceeds of the sale in any way they wish.

### Capital gains tax (CGT) 15 year asset exemption

This concession allows you to completely disregard and pay no tax on a capital gain made from the sale of any active asset your business has owned for over 15 years in the event you satisfy the small business concessions.

### CGT roll-over

In the event you decide to sell a business asset and replace it with a new one you can roll over your CGT liability onto the value of the new asset, meaning you will not need to pay CGT until you sell the replacement asset.

*If you have any questions or require any further information please feel free to contact your Client Manager and they will be happy to assist you.*

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