End of financial year guide for small businesses

A step-by-step checklist to help you wrap up the 2016 / 2017 financial year

Reckon

Tax time made easy

The end of financial year is a busy and stressful time for small business owners. Getting your tax reporting right and in on time is crucial because you can't afford to have penalties from the ATO for not being compliant.

To help make it a little easier we've created an EOFY checklist with important dates, tips and strategies to help you stay in control and compliant with your tax obligations.

So, get organised now and get back to what you love doing — **building a great business!**

Please be aware that the information contained within this guide is for general purposes only. You should satisfy yourself of the requirements of applicable Australian laws and regulations and seek advice from your professional adviser for your specific circumstances before acting on any information provided in this guide. Reckon Limited does not provide legal, taxation, financial or investment advice.

FOLLOW THESE STEPS

Before 30 June 2017

- [ ] Ensure your accounting file is locked off and all bank accounts reconciled
- [ ] Calculate your profit or loss for the year
- [ ] Determine whether you will owe tax to the ATO for the profit you have made
- [ ] Implement strategies to reduce this tax
- [ ] Begin to collate your 2016/2017 tax paperwork
- [ ] Ensure that the Trustee Resolutions are prepared and signed BEFORE 30 June 2017 for all Discretionary (“Family”) Trusts
- [ ] Business owners who have borrowed funds from their company must ensure that the appropriate principal and interest repayments are made by 30 June 2017
- [ ] Complete a stocktake

- [ ] List your vision or goals for the 2017/2018 year
- [ ] Review your prices or fees for the 2017/2018 year
- [ ] Review the wages and superannuation for the 2017/2018 year
- [ ] Review contact cards particularly employees for current details
- [ ] Prepare your budget for 2017/2018
- [ ] Consider mini budgets for sales lines, employee expenses, purchases, motor vehicles
- [ ] Review your business structure with your accountant, is it still appropriate for your needs?
- [ ] Review your accounting software needs, is it time to go to the cloud? What add-on options can make your business more efficient and free up your time?

TAX TIPS

Action before 30 June 2017

- [ ] Pay Superannuation Guarantee (SG) to obtain a tax deduction in this financial year (even though it isn't due until 28 July 2017)
- [ ] Make additional superannuation contributions up to your aged based limits
- [ ] Review Accounts Receivable (Debtors) ledger and write off any bad debts
- [ ] Review Stock on hand and write off slow moving or obsolete stock
- [ ] Review Work In Progress (WIP)
- [ ] Make tax deductible purchases such as accounting software and office expenses for items you will need before 30 June 2017
- [ ] Pay director's fees or dividends
- [ ] Pay staff bonuses

- [ ] Adjust owner’s wages
- [ ] SBE taxpayers
  - Defer receiving income
  - Prepay expenses for up to 12 months e.g. rent, insurance, interest, subscriptions, business travel
  - Purchase business assets and have them installed ready for use before 30 June 2017, if under $20,000 there’s an immediate tax deduction
- [ ] Non SBE taxpayers
  - Defer invoicing
  - Prepay expenses up to $1,000

FOLLOW THESE STEPS

Before 31 July 2017

- [ ] Prepare Payment Summaries and provide to employees by 14 July 2017
- [ ] Pay Superannuation Guarantee (SG) for the quarter ended 30 June 2017 by 28 July 2017 (if you didn't pay before 30 June to get a tax deduction in the 2016/2017 year)
- [ ] Make sure your budget is inputted into your accounting file
- [ ] Make sure you have updated the pricing in your accounting file
- [ ] Make sure you have updated any employee remuneration in your accounting file

FOLLOW THESE STEPS

Before 31 August 2017

- [ ] Prepare ATO Payment Summary Report and submit to the ATO by 14 August 2017
- [ ] Prepare the ATO Taxable Payments Report and submit to the ATO by 28 August 2017
- [ ] Finish collating your 2016/2017 tax paperwork

We suggest you regularly review your financial statements against your budget. Don’t be afraid to adjust your budget or goals as circumstances do change. Most of all enjoy what you do!



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Accounting terms you should know

Accounting Methods

There are two methods of accounting for your business, accruals and cash.

Accruals

Accruals is a non cash method where the income tax return or BAS for your business is prepared when invoices are raised and bills are entered regardless of whether or not the money has been received or paid. This means you will pay Income Tax and GST on money you haven't received but you will also reduce the Income Tax and GST by the bills you haven't paid.

Cash

The Cash method is where your business income tax return or BAS only includes the money that has been physically received or paid during the year or quarter.

Financial statements for a business may be prepared on an accruals basis to reflect the true position of the business but the Income Tax Return and BAS could be prepared on a cash basis so the business isn't taxed on unearned income and unpaid expenses.

Check with your accountant on which basis they use to prepare your income tax return before implementing any strategies. We also recommend discussing the strategies with your accountant.

SBE taxpayers can choose which method they prefer to use whereas a non SBE taxpayer must use the accruals method.

Age Based Limits

Superannuation contributions have Age Based Limits on the amount that can be a tax deduction for each employee in a financial year.

For the 2016/2017 year the following limits apply:

- Under 50 - $30,000
- Over 50 - $35,000

If you have turned 50 during the 2016/2017 year, the $35,000 cap applies to you as it is based on your age at 30 June 2017.

Extra contributions up to the aged based limits also include the 9.5% SG for example an employee at age 40, who is earning $80,000 would have SG of $7,600 and therefore can contribute an extra $22,400.

Be aware that contributions are included based on when the contributions are physically received and not the year they relate to. The contribution for the March to June 2016 quarter may not have been received until July 2016. Also if a contribution is paid too late in June 2017, it may not be processed in time to be included for 2016/2017.

Bad Debts

When a customer has an outstanding invoice and all avenues of recovering this debt have been exhausted, then the business can decide to write this off as a bad debt.

A deduction for a bad debt is only allowed if it has been previously included as assessable income meaning the business would need to have been completing their tax return on an accruals basis.

The bad debt must be written off before 30 June and the business needs to have physical evidence in writing that the debt has been written off.

Small Business Entity (SBE)

You're a small business if you are a sole trader, partnership, company or trust that does both of the following:

- operates a business for all or part of the income year
- has less than $10 million aggregated turnover.

The ATO defines aggregated turnover as your annual turnover plus the annual turnover of any entities you are connected with or that are your affiliates. These entities are also known as 'relevant' entities.

There are three methods to work out if you are a small business for the current income year:

Method 1. Previous year's aggregated turnover
If your businesses aggregated turnover for the previous income year was less than $10 million, you are a small business entity.

Method 2. Estimate your current year aggregated turnover
You can only use this method if your aggregated turnover for one of the two previous income years was less than $10 million and you estimate that your aggregated turnover for the current year is likely to be less than $10 million. See here for more information on the various factors to consider when estimating your aggregated turnover.

Method 3. Use your actual current year aggregated turnover
If your business is unable to use the first two methods, they will need to calculate the aggregated turnover as at the end of the current year.

An example of this is a business owner that plans to retire during a year who had previously earnt more than $10 million, and therefore unable to use method 1 and 2 but is likely to be under $10 million for this current year.

If your actual aggregated turnover at the end of the current year is less than $10 million, you are a small business for the current income year.

Superannuation Guarantee (SG)

Superannuation is money a business pays for its employees to provide for their retirement.

If an employee is over 18 years old and they earn $450 or more before tax in a calendar month, the business has to pay superannuation on top of their wages.

The minimum the business must pay is called the superannuation guarantee (SG) which is currently 9.5% of an employee's ordinary time earnings (OTE). OTE is usually the amount the employee earns for their ordinary hours of work. It includes things like commissions, shift loadings and allowances, but not overtime payments. To work out what the business must pay, multiply the employee's OTE for the quarter by the SG rate.

The business must pay SG at least four times a year, by the quarterly due dates which are as follows:

Period	Due Date
1 July – 30 September	28 October
1 October – 31 December	28 January
1 January – 31 March	28 April
1 April – 30 June	28 July

The business must pay and report superannuation electronically in a standard format, ensuring they meet SuperStream requirements. The superannuation payments must go to a complying superannuation fund, most employees can choose their own fund.



There are many ways to get help during tax time.

Phone
1800 RECKON (Toll-free 1800 732 566)

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