End of financial year guide for small businesses

A step-by-step checklist to help you wrap up the 2020 / 2021 financial year

Reckon

Wrap up end of financial year

It's been a tough year for Australian small business owners with a global pandemic causing major disruption to business as usual. And while these impacts continue to be felt, the requirements of end of financial year remain.
To make it a little easier, we've created an end of financial year guide with checklists, important dates, tips and strategies to help you stay in control and up to date with your tax obligations.

So, get organised now, tick tax time off your to do list and get back to running your business!

FOLLOW THESE STEPS

Before 30 June 2021

- [ ] 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 2020/2021 tax paperwork
- [ ] Ensure that the Trustee Resolutions are prepared and signed BEFORE 30 June 2021 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 2021 or declared dividends to repay these loans
- [ ] Complete a stocktake

- [ ] List your vision or goals for the 2021/2022 year
- [ ] Review your prices or fees for the 2021/2022 year
- [ ] Review the wages and superannuation for the 2021/2022 year
- [ ] Review contact cards particularly employees for current details
- [ ] Prepare your budget for 2021/2022
- [ ] Consider mini budgets for sales lines, employee expenses, purchases and 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?

What is a tax planning strategy?

Paying tax is not necessarily a bad thing when you are running a business - it means you're making money! However, for most business owners paying tax is still a significant expense so you should only pay your fair share. This is where tax planning strategies come into play.

Tax planning is the process used by individuals and businesses to structure their finances to legally reduce the amount of tax you pay. Tax planning is largely focused on reducing your taxable income by reducing income and/or increasing expenses.

When implementing any tax planning strategies, it's important to keep in mind that any major asset purchases should be focused on generating income - the tax benefit should be secondary.

The below are examples of simple, smart and legitimate ways you can reduce the amount of tax you are required to pay.

TAX PLANNING STRATEGIES

Action before 30 June 2021

- Pay Superannuation Guarantee (SG) to obtain a tax deduction in this financial year (even though it isn't due until 28 July 2021)
- Make additional superannuation contributions up to your cap
- 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)
- Bring forward tax deductible purchases such as accounting software, repairs, donations and office expenses/consumables
- Review Asset register and scrap and obsolete equipment
- 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 ready and installed for use by June 30, 2023*. Available to all Australian businesses with up to $5 billion in annual turnover with no cap on the value of the new assets that can be claimed.

Non SBE taxpayers

- Defer invoicing
- Prepay expenses up to $1,000
- Purchase business assets and have them ready and installed for use by June 30, 2023*. Available to all Australian businesses with up to $5 billion in annual turnover with no cap on the value of the new assets that can be claimed.

*Subject to the Federal Budget 2021 legislation.

FOLLOW THESE STEPS

Before 31 July 2021

- [ ] Prepare the STP finalisation declaration and send to the ATO*
    - Employers with more than 20 employees have until 14 July 2021
    - Employers with 19 or less employees have until 31 July 2021
- [ ] Pay Superannuation Guarantee (SG) for the quarter ended 30 June 2021 by 28 July 2021 (if you didn't pay before 30 June to get a tax deduction in the 2020/2021 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

*STP Finalisation Declaration has replaced the need to produce Payment Summaries for employees. The information that was provided on the Payment Summaries is available in the employees' MyGov account and is known as an Income Statement. If an employee doesn't have a MyGov account, their accountant will be able to access this information via the Tax Agent portal.

FOLLOW THESE STEPS

Before 31 August 2021

- [ ] Prepare the ATO Taxable Payments Report and submit to the ATO by 28 August 2021*
- [ ] Finish collating your 2020/2021 tax paperwork. Example of documents relating to your business that your accountant might need:
  - Access to your data file
  - Reconciliations for Bank Accounts, Debtors, Creditors, Payroll and Superannuation
  - Loan statements and relevant documents for new loans
  - Documents on new assets bought or sold, including the date you entered the contract and the date the asset was first installed or ready for use
  - Stocktake, if applicable
  - Documents relating to investments

*The Taxable Payments Reporting System has been expanded and includes the following industries: Building and construction services, Cleaning services, Courier services, Road freight services, Information technology (IT) services, Security, investigation or surveillance services or Mixed services (providing one or more of the listed services)

Reflect and reset your business goals

The end of financial year can be intense. However, one of the major perks of all the hard work you put in is accurate and up to date financial data about your business - which makes it the perfect time to evaluate the success of your business over the last year:

- [ ] What worked well and what didn’t?
- [ ] What do you enjoy about your business and what don’t you?
- [ ] What are your goals and budgets for 2021/22 and beyond?

Whatever you decide for your business it is essential that you track your progress. Get organised from the outset with online accounting software like Reckon One. It has a real-time dashboard displaying your net position and can automate aspects of your accounting admin such as bank reconciliation or chasing invoices. Embracing this technology can save you valuable time which can be better spent focusing on the future of your business.

Accounting & cash flow

Easily manage expenses, cash flow, bank reconciliation and real-time reporting all for just **$10/month.** Plus, keep track of GST and BAS for tax time.

LEARN MORE

Manage payroll like a pro

Process pay runs, leave, super, STP, JobKeeper payments and PAYG compliance for an unlimited number of staff from just **$10/month**.

LEARN MORE

Invoice & get paid faster

Create and send professional invoices with online credit card payment options. Set-up recurring invoices & track unpaid to boost cash flow.

LEARN MORE

Accounting & payroll software that works as hard as you do

Spend less time on managing your finances and more time on growing your business .

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.

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.

Single Touch Payroll (STP)

Single Touch Payroll (STP) is an initiative by the ATO that changes the way employers report on employee payments including salary and wages, PAYG withholding and superannuation.

Under STP, employers will send payroll information to the ATO at the same time as they pay their employees typically weekly, fortnightly or monthly via their payroll software. Reporting each pay run saves time and resources for businesses at the EOFY because you have already submitted payroll information to the ATO throughout the year. Employers will no longer need to process payment summaries and give employees real-time visibility of tax and super information.

Single Touch Payroll has been mandatory for all employers since 1 July 2019.

From 1 July 2021 it is mandatory for payments to Closely Held Employees to be reported via STP along with the other employees. A Closely Held employees is some who is directly related to the business that they receive payment from. For example, the family members of a family business, directors or shareholders of a company or beneficiaries of a trust.

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:

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

2. Estimate your current year turnover
If the business estimates that its aggregated turnover for the current year is likely to be less than $10 million, the business will be a small business entity for the current year. However, the business can only estimate its current year turnover if the aggregated turnover for one of the two previous income years was less than $10 million.

3. Actual current year turnover
If the business is unable to use the first two methods, they will need to calculate the aggregated turnover as at the end of the income year. If the businesses actual aggregated turnover is less than $10 million, the business will be a small business entity for that 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%, but will increase to 10% from 1 July 2021, of an employee's ordinary time earnings (OTE). OTE is usually the amount the employee earns for their ordinary hours of work. It also 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.

Superannuation contribution cap

Superannuation contributions have a cap on the amount that can be a tax deduction for each employee in a financial year. For the 2020/2021 year the limit is $25,000 for all ages. From 1 July 2021, this cap will increase to $27,500 for all ages.

Extreme care needs to be taken when making the extra contributions up to the cap as the Superannuation Guarantee amount (currently 9.5%) is also included in this limit. An employee at age 40, who is earning $80,000 would have SG of $7,600 and therefore can contribute an extra $17,400.

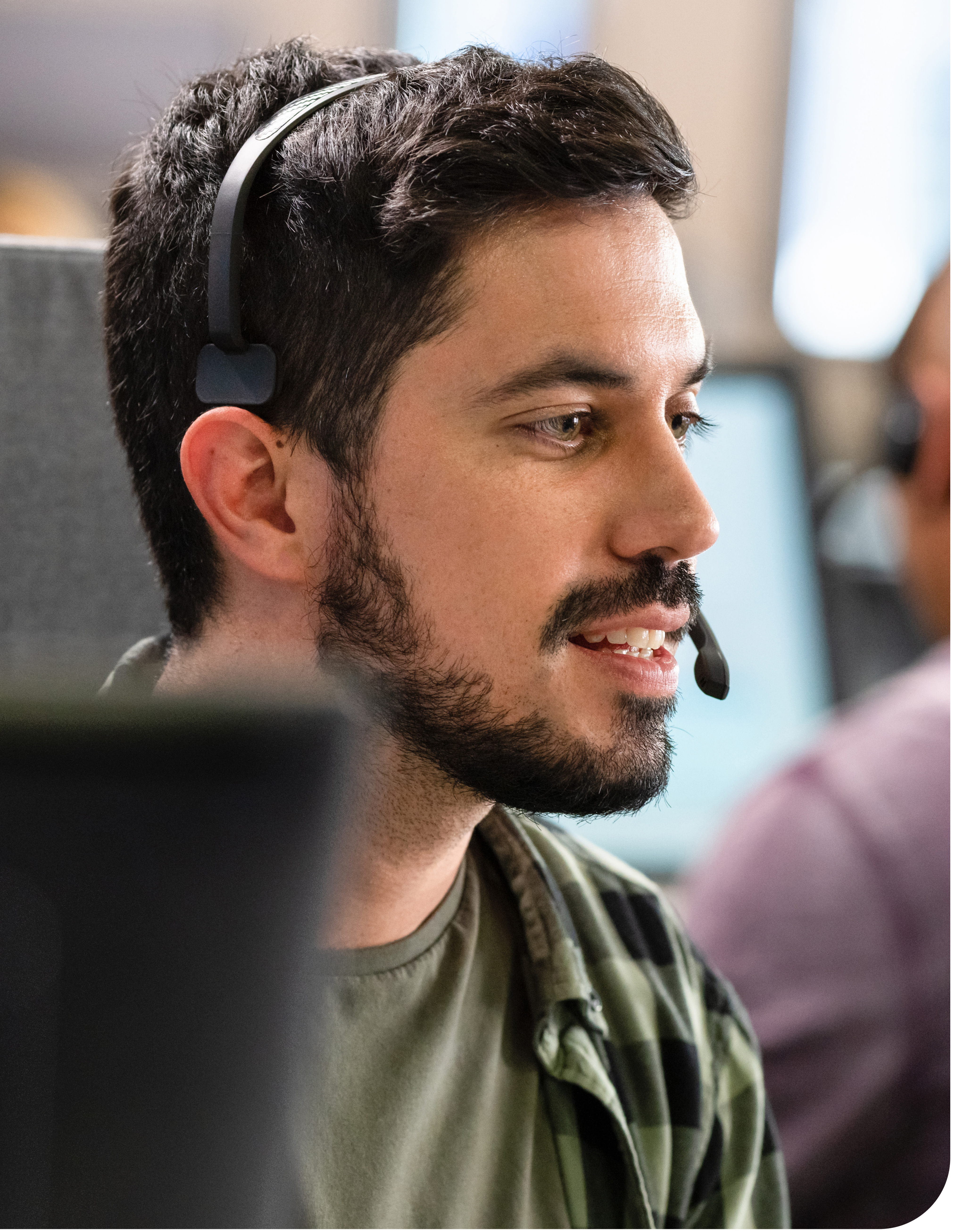
The timing of the contributions also needs to be taken into account as the limits are based on when the contributions are physically received and not the year they relate to. The contribution for the April to June 2021 quarter may not have been received until July 2021. Also, if a contribution is paid too late in June 2020, it may not be processed in time to be included for 2019/2020.

Tax treatment of Government grants and relief payments

As we all know, 2020 was a tough year in Australia. We started with an ongoing drought, bushfires, floods followed by ongoing the COVID-19 pandemic. To assist businesses the government made available a number of grants, loans and payments. The tax treatment of these will vary.

Generally speaking, if the payment relates to your continuing business or employment activities then it is likely to be included in your assessable income. Eg JobKeeper payment. **Learn more >**

The tax treatment of grants will generally include them as assessable income unless legislation has been passed to exclude the grant from assessable income. Eg the Disaster Relief payments in relation to the 2019/2020 bushfires. **Learn more >**



There are many ways to get help during tax time.

Phone
1800 RECKON (Toll-free 1800 732 566)

Email
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