YOUR KNOWLEDGE

DGL WELCOMES NEW PARTNER TO THE FIRM

We are excited to announce that Elizabeth Dent has become a Partner of DGL Accountants.

With 14 years in the accounting industry, Elizabeth has the experience and knowledge to help clients reach their financial goals. Congratulations Elizabeth on your partnership.

Clothing deductions hung out to dry

The Australian Taxation Office is closely examining work-related clothing and laundry expense claims of taxpayers submitting their 2017-18 tax returns. The ATO says that clothing claims are up nearly 20% over the last five years with people either making mistakes or deliberately over-claiming. Common mistakes include people claiming ineligible clothing, claiming for something without having spent the money, and not being able to explain the basis for how the claim was calculated. "Around a quarter of all clothing and laundry claims were exactly $150, which is the threshold that requires taxpayers to keep detailed records.

We are concerned that some taxpayers think they are entitled to claim $150 as a 'standard deduction' or a 'safe amount', even if they don't meet the clothing and laundry requirements," Assistant Commissioner Kath Anderson said. While this particular announcement focuses on clothing related expenses, it has been clear for some time now that the ATO is paying very close attention to work related expenses in general. All claims should be supported by evidence – just in case the ATO decides your claim requires closer scrutiny.

We have heard of a number of real life examples in the last year or so where the ATO has queried and challenged very small deduction amounts which could not be supported by appropriate evidence.

What can I claim?

You can only claim a deduction for the cost of buying and cleaning:

- Occupation-specific clothing - for example, the checked pants a chef wears.
- Protective clothing – fire-resistant and sun-protection clothing, safety-coloured vests, non-slip nurse's shoes, rubber boots for concreters, steel-capped boots, gloves, overalls, and heavy-duty shirts and trousers, and overalls, smocks and aprons you wear to avoid damage or soiling to your ordinary clothes during your income-earning activities, and
- Unique, distinctive uniforms – clothes that are designed and made for the employer and not publicly available - like shirts with the company logo.

Just because your employer requires you to wear a suit, this does not mean you can claim the cost of the suit or its cleaning. If you claim a $150 on clothing and laundry expenses, just be aware that you might be asked to prove these expenses.

Are you holding back your business?

Overcoming the biggest problems in business often comes down to the simple things. Here are a few simple things you can do to capitalise on your opportunities and reduce your risks.

"I didn't get time…" No more excuses

Most people simply don't set aside the time to do the forward planning they know they need to do. Here's a simple test: write down your goals for the business. Now ask yourself, are you doing something to achieve those goals every day or every week? If not, it's not a goal. It's just a nice thought.

Set a realistic budget

Financially mapping your business reduces your risk and removes some of the surprises that can occur. Your budget needs to be realistic – not just a percentage increase on last year. Start with an operating budget and assess each line critically. Map your revenue to see where, how and when the money is coming in to create a reliable estimate of your income for the coming year.

Once you have your revenue expectations in place, look at what is required to generate that income. For example, what advertising, marketing and resources will be required? Once you are comfortable with your revenue, work up your expenditure budget.

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Be tough on costs. Don't forget to allow for growth and the increases that are likely to flow through. Once your budget is complete and you have a good idea of your likely profit margins, do a couple of alternative estimates for your key revenue drivers so you understand the impact of changes to your assumptions. Once you have all this in place, track and measure it throughout the year. Where possible, your management team should be a part of this process and take responsibility for achieving the budget numbers they give you. When people don't take the steps that they knew were required to achieve the budget the gaps become obvious fairly quickly. Having a budget in place that you need to report on regularly makes you focus on what really needs to be done.

Map your cash

Even some very large businesses have failed because they ran out of cash. Understanding your cashflow needs is vital particularly for high growth business. Understanding your cash position is about understanding the timing differences: How long will it take for your customers to pay you? How much stock will you need to hold? And, what are the payment terms required by your suppliers? With your cash flow, don't forget to allow for things like tax payments, loan repayments, dividends and any capital purchases that are planned. These can be 'big ticket' items and if you don't allow for them then you will get caught out. As part of your cash flow forecast identify your capital expenditure requirements. Don't deal with these on a one-off basis as they arise, plan them in advance.

Expect the unexpected

Growing to death is often the result of unplanned growth opportunities. It's ironic that seizing a major sales contract or big new client can be your business's ruin but its more common than you think. Many business operators are very good at what they do. Most have an excellent knowledge of the business they conduct and understand their products and services. Most also have an in-depth knowledge of sales performance and revenue. Few however, have a high level of financial management expertise, so when a big new opportunity presents, critical financial questions are not part of the vocabulary. As a result, there can be a sudden and unintended impact on their financial position. A rush of sales might be a great thing but it is not always counterbalanced by a rush of income and profit. Free cash and liquidity are the victims.

Take all the tax advantages you can

For small business in particular there are a range of concessions and funding you can access. Many businesses simply don't realise the opportunities available to them. A simple example is trading stock valuations. Your trading stock is an asset that is recorded on your balance sheet. In most cases it should be tax neutral to you. The cost of purchasing stock is expensed in your profit and loss account and offset by the value of the stock asset, until you sell it. While the amount of stock you are carrying will impact on your cash position, because you have your funds tied up in it, there is no direct impact on your profits or taxable income until you sell that stock. However, if at 30 June some of your stock is worth less than its cost price, you have the option to value it at the lower figure and take the tax write off now, rather than wait until the stock is sold. This reduction in your stock value will produce a tax saving for you.

For tax purposes, there are a number of ways of valuing stock. Once you have done your stocktake (assuming you need to do one), you can choose what method to apply depending on the stock and your circumstances. The different ways of valuing stock can produce different results. Most businesses chose to value trading stock at cost – but you have the option of valuing your stock at cost, market selling price, or replacement value.

For example, if you have stock that is about to become obsolete, valuing it at cost price for tax purposes is not going to help you. In this situation you might be better off to value the stock at market selling price, particularly if it is a large quantity. The tax rules also allow you to use a value that is lower than cost, market selling price or replacement value if this is warranted because of obsolescence or other special circumstances as long as the value you elect is reasonable. Take the example of vitamins with a use by date that only has a month or two left on it. Leading up to and once the vitamins reach their use by date they are unsaleable. In this case, you would estimate how much of the stock you are likely to sell prior to the use by date and at what price. Using previous sales as a guide, if you only expect to sell 15% of the stock prior to the use by date, you would use the market value of this 15%. Other than when you sell your stock, your tax return gives you a once a year opportunity to adjust your stock values and realise any losses.

Another way businesses disadvantage themselves is not taking the Government concessions available to them. The R&D tax incentive and Export Market Development Grant are a classic case. In the case of R&D incentives, if you develop new technologies or products, you might be eligible for a 43.5% tax offset (if your business has a turnover under $20 million). The Export Market Development Grant reimburses up to 50% of eligible export promotion expenses above $5,000 provided that the total expenses are at least $15,000.

Quote of the month

"If your house is burning, wouldn't you try and put out the fire?"

Imran Khan, former cricketer and Pakistan's incoming Prime Minister.

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