Tax Deductions Tips for the Self-Employed

Are you a sole trader? Do you freelance? Or maybe you're in a partnership. These are all classifications of being self-employed. You're one of the 2.2 million or so small businesses that operate in Australia. Your success relies on keeping up with market trends, providing the best products or services and niching yourself in a competitive marketplace. You need to streamline your costs and understand where every cent is going. You'll also need to know how to leverage the best out of tax time – and there are some very smart ways you can cut costs and maximise this key time of year.

Tax Is Not Just At Tax Time

As the self-employed, it pays to keep on top of your tax throughout the year. Setting money aside into a separate bank account to pay your tax as you earn it will avoid the end of financial year stress when paying your business' tax bill. As your business grows, you may have to start collecting the Goods and Service tax (GST) and Pay As You Go (PAYG) instalments.

Businesses that earn over $75,000 will need to register for and collect the GST. Once you've registered, you'll need to lodge your Business Activity Statement (BAS) and pay either monthly, quarterly or yearly.

Collecting GST also means that you'll be able to claim back GST credits that your business has incurred on expenses. You'll need to issue tax invoices to the buyer of your taxable sales that include GST. The amount you claim will be stated on tax invoices or tax receipts you receive from expenses incurred. GST can be claimed on most goods and services, however some basic food items, some education courses, some medical, health and care products and services may not have GST on them and therefore a GST credit cannot be claimed.

Instant Asset Write Off

Savvy self-employed people understand that purchasing new equipment will help grow your business or increase your service offering to your customers. Under the instant asset write off, businesses can claim the business cost of assets in the year that an asset is first used or is ready for use.

Previously, from 12 March 2020, the instant asset write off threshold amount for each asset was $150,000 (up from $30,000) and eligibility had been expanded to cover businesses with an aggravated turnover of less than $500 million (up from $50 million). As of budget night, October 6, 2020 until 30 June 2022, there will be no upper threshold limit.

There are eligibility criteria on business size and car limits. Whether the threshold is GST exclusive or inclusive depends if you're registered to collect GST.

Superannuation

There are many advantages to contributing to your superannuation. You save for your retirement, and can save tax on your super contributions whether they be regular payments or lump sum.

Super contributions are taxed at 15%. You may save tax depending on your situation. Investments made usually get better returns than bank savings accounts so your savings will grow faster.

Pro tax tip: Your fund can only accept personal contributions from you if it has your tax file number (TFN)

Tax deductions can be made on the pre-tax income, also known as concessional contributions, benefiting you by lowering your taxable income. To claim a tax deduction, you need to receive a 'Notice of intent to claim' form from your super fund before lodging your tax return and the contribution would need to have been received by the super fund before the end of the financial year.

There are limits to how much you can contribute into your superannuation fund each financial year. Up to $25,000 in concessional contributions can be claimed on your pre-tax income (including employer contributions on your wages), and up to $100,000 in non-concessional contributions from your after-tax income can be claimed.

If you're on a low income you may be eligible for government super contributions or the low income super tax offset (LISTO).

Home-Based Business

Many self-employed operate their businesses from home. Many tax deductions can be made on the running and occupancy costs of your business.

Running expenses include electricity and gas costs for heating, cooling and lighting your home office. You'll also be able to claim a tax deduction on the home phone, internet and mobile calls made in order to conduct your business.

The decline in value of your desk, computers, any equipment, tools or machinery you might use can be calculated. Cleaning, repair and maintenance costs are also key tax deductions.

If you run a home-based business, you may be able to claim a share of your occupancy expenses that relate to your business. Occupancy expenses include mortgage interest or rent, council rates, land taxes, house and contents insurance premiums. To be eligible to claim a deduction for occupancy expenses you must pass the interest deductibility test.

Pro Tax Tip: There are three ways to claim your home-office expenses:

1. Flat rate 80 cent per hour which covers all running costs and equipment purchases(Until 31 December 2020)
2. 52 cents per business hour
3. Actual cost

Motor Vehicle Expenses

If you're running your business from home, there are motor vehicle expenses you can claim on the costs on trips made between your home and other places of business. These include trips made to a clients premises, to purchase equipment and supplies, to a bank or post office, to your tax agent or accountant.

The running costs of your motor vehicle can be claimed. Items such as fuel, repairs and servicing, interest on a motor loan, lease payments, insurance premiums, registration and depreciation are all valid claims. If your trips include a private aspect, you'll need to work out the business portion to claim.

Expenses can be claimed using two methods:

- The cents per kilometre method and
- The logbook method

Using both methods a log book will need to be kept detailing:

- The date of when your log begins and ends
- Your car's odometer reading at the start and end of your log book period
- The odometer readings at the start and end of the income year in which you use the log books
- The total number of kilometres the car travelled during the period
- The details of each trip, including:
    - o The date of the journey
    - o The odometer reading at the start and end of the journey
    - o Kilometres travelled
    - o Reason for the trip and places travelled

Pro Tax Tip: Your log book must be kept for a consecutive twelve week period that is representative of the year and may be averaged out for the year. The same log book can be used to substantiate your business use percentage for up to 5 years provided you record the odometer readings at 30 June each year. You must keep a separate log book for each car that is used for business.

Get Professional Help

The best way to make the most of your tax deductions and make sure that you're making every eligible claim you can make, is to pay a professional. The right tax accountant will offer expert guidance and help with your business accounts, your bookkeeping and savings to be made on your tax.

Tax Agents can help with:

Setting up your accounting and bookkeeping software

- Setting up the legal structure of your business
- Applying for an ABN or ACN, GST and your BAS
- Liaising with the ATO on your behalf
- Profit, loss and forecasting

Pro Tax Tip: Only registered tax agents can lodge tax returns. Check if your accountant is registered on the Tax Practitioners Register.

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