

Enterprise

How you can save with a tax offset

April 14, 2010

When it comes to saving on your tax bill, an often overlooked benefit is the Entrepreneurs' Tax Offset, which could reduce the tax you need to pay by 25 per cent.

The old saying goes that there are only two things in life that are certain: death and taxes. While I have yet to find a way to cheat death, I'm always amazed at the number of entrepreneurs I speak to who don't take advantage of the various benefits and deductions they can claim to reduce the tax they have to pay.

For example, a friend of mine is constantly paying for stationery, postage and smaller items that she needs for her business. But she has no system to keep receipts or account for them, so she simply doesn't deduct these expenses. When I pointed this out, she says that they are only small items anyway. Well, small items add up and, depending on the volume of these small transactions, this could reduce the amount of tax you ultimately have to pay.

Another often overlooked benefit which is particularly relevant for small business owners is the [Entrepreneurs' Tax Offset](#) (ETO).

What is the Entrepreneurs' Tax Offset?

Janna Fletcher, principal of Fletcher Tax Accountants says that, in her experience, not many entrepreneurs have heard about this offset.

"This is an offset available for businesses who have a turnover (not profit) of less than \$75,000 within the 08/09 financial year," Fletcher explains. "Should your business satisfy this threshold - then you are entitled to a tax offset equal to 25 per cent of the income tax payable on the business component within your return. In effect, this means that this offset will directly reduce the amount of tax you need to pay at year end."

Fletcher provides the following example. If you have a taxable income of \$50,000, this would usually incur \$9,000 of tax payable (assuming that this figure is net business income for the year and no other revenue was earned, during the 08/09 financial year).

When you apply the ETO, you would reduce your core tax to \$6,750 (a reduction of \$2,250).

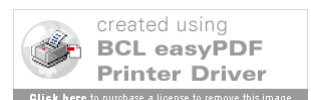
"Please be aware that the ETO is most effective for those businesses whose turnover is less than \$50,000," she says. "Businesses earning between \$50,000 to \$70,000 in turnover will still get benefit from applying the ETO, but the offset unfortunately begins to phase out from the \$50,000 mark."

For those of you who are already tax planning for this financial year (09/10), Fletcher says: "The ETO still applies in 09/10 financial year with the same criteria for eligibility as in 08/09 financial year, but the threshold will be reduced to \$70,000."

Will the ETO benefit you?

If your business - which can be an individual, partnership, company or trust - has a turnover of less than \$75,000 within the 08/09 financial year or \$70,000 in the 09/10 financial year, you should seriously take a look at whether you'll be able to claim the offset.

Don't automatically assume that your accountant is going to take this into account. Have a conversation about it. "Unfortunately, accountants often forget to include the claim for this offset, which is a true shame for those who can rightfully take advantage of it," says Fletcher. "In terms of dollar savings, a current client of mine - a company with a turnover of \$50,000, net small business income of \$40,000 and taxable income of \$80,000 - was entitled to a tax offset (reduction of tax) of \$3,000."



If you've missed out of claiming the offset in your last tax return, Fletcher says the return can be amended.

If you are an entrepreneur turning over less than \$50,000, you don't want to be giving away more to the tax office than you have to. More importantly, you want to get into the habit of taking advantage of all the tax benefits that you're legally entitled to.

I get tired of business owners who want to put it all in the "too hard" basket and then complain about how much tax they have to pay when they haven't bothered to claim all that they are able to anyway. This is a good opportunity to save yourself some money. Remember, in life, you may never escape the inevitability of death. But occasionally, small miracles happen, and you get a little break from the tax office. Make the most of it.

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Recent comments

- **cached up man**
- April 20, 2010
- 03:01 AM

The entrepreneur incentives here in OZ are a real joke.

In Singapore, for the the first three years of your start-up, the first \$300k profit will only cost \$17k in tax. That's \$283k tax free! Followed by the company tax rate of 17% & the top marginal personal tax rate of 20% (after \$320k).

Re: pay your tax mate

"Society needs its taxes to pay for services and infrastructure."

The problem is not tax revenue but wasteful government spending (incl doggy deals etc). How come Singapore has less tax yet their citizens have better services than us?

- **BarryK**
- April 19, 2010
- 11:48 AM

The sad part for me is "accountants often forget to include" - isn't this what we are paying them for in the first place.

How can anyone be certain that their accountant hasn't 'forgotten' anything without paying more to someone else to check and then have soiled the relationship with their accountant.

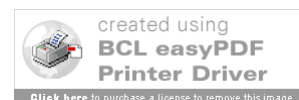
Accountant churn costs a lot of time and money.

Just as I get the ripped off feeling from my auto mechanic, I get the same ripped off feeling from my accountant.

- **Paul**
- April 16, 2010
- 12:10 PM

Thanks for the article. It is also worth mentioning about registering for GST for companies less than \$75,000 pa. Whilst our business www.stellabrella.com.au is much bigger than this now, the potential GST and ETO issues are worth reading about for any very small business owner. When you are growing, and money saved can be re-invested into the business.

- **pay your tax mate**



- April 15, 2010
- 09:02 AM

I'm sick to death of some people continually looking for ways to NOT pay their fair share of the country's taxes and for the media and others who are supporting this selfish attitude. Minimise four tax for sure, but if you make a reasonable profit pay your due to the country that gave you the opportunity. Society needs its taxes to pay for services and infrastructure.

- **Julie Sweet**
- April 14, 2010
- 08:04 PM

Brilliant article Valerie and exceptional insight from Janna Fletcher. I know this first hand as I employed Janna a while back now and what she did for my business www.certificatesonline.com.au was remarkable. Valerie yet another invaluable piece, well worth reading for all entrepreneurs! Thankyou for providing all of us with such important information.

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