



Paul Clitheroe

Paul Clitheroe is a founding director of financial planning firm ipac, Chairman of the Australian Government Financial Literacy Board and chief commentator for Money Magazine.

small business and tax

Australians are an entrepreneurial lot. In a recent survey by recruitment group Kelly Services, one in five described themselves as 'self-employed', and of the rest, approximately half expressed a desire to work more independently. Clearly, running our own show holds real appeal but long-term success in small business calls for good management.

Working for yourself isn't always as risky as people believe, especially if you've done your homework and have a clear plan for success. The challenge for time-poor entrepreneurs often lies in managing the day to day administration of the business. And it's at tax time that self-employed workers often get caught out.

When you work for yourself it's critical to keep business expenses separate from personal spending. This doesn't just give you a clear idea about whether the venture is profitable, it's essential for the preparation of the venture's tax return as only business-related costs can be claimed on tax.

One way to isolate business spending is by using a business credit card. These are offered by a number of financial institutions and as long as the venture can pay the credit card bill in full each month, it's an option that can offer bookkeeping benefits.

In addition to itemising card spending, the monthly statement for a business credit card should show the GST component of card purchases, which can streamline the accounting process.

More importantly is the need for small businesses to set aside funds for tax.

The tax man takes a very dim view of businesses that cannot meet their tax obligations. Penalties for falling behind with tax payments can be severe, potentially even resulting in bankruptcy.

As an employee, we rely on the boss to deduct tax from our regular wage or salary, so whatever we receive in the hand is ours to spend. It's a very different scenario when you're self employed. The onus is on you, the entrepreneur, to set aside part of your revenue to meet your tax obligations.

Along with income tax, you may also need to be able to pay your GST bill when it falls due, and this could be quarterly. You'll need to register for GST if your annual turnover is \$75,000 or more (this can be done by visiting www.business.gov.au or phoning the Tax Office on 13 28 66).

An easy way to stay on top of tax payments is by making regular deposits to a separate, high interest

savings account. This ensures your venture can meet tax bills when they fall due, which can go a long way to avoiding unwanted attention from the Tax Office.

Having the funds on hand to pay tax also means you won't have to rely on an expensive overdraft facility at tax time. And the added sweetener is the potential to boost revenue through additional interest income.

For more information on what to consider if you're thinking about starting up a new business, take a look at my book *Making Money*, or visit the government's business portal at www.business.gov.au.

Paul Clitheroe's 'Making Money' for the week beginning 28 June 2010



Disclaimer: The material contained herein is of a general nature only and is not intended to be relied upon as a substitute for professional advice. ipac has not taken individual circumstances, objectives or needs into consideration. Before acting on any advice, you should consider whether the advice is appropriate to your individual circumstances. You are advised to seek independent professional advice. While ipac believes that the information contained in this publication is correct, no warranty of accuracy, reliability or completeness is given, and except for liability under statute which cannot be excluded, no liability for error and omissions is accepted. ipac securities limited ABN 30 008 587 595 AFS Licence No. 234656.

ipac securities limited Level 31 Grosvenor Place 225 George Street Sydney NSW 2000 Australia
Sydney Office Locked Bag 15 Grosvenor Place NSW 1220. DX 10328 Sydney Stock Exchange.
Telephone 02 9373 7000. Facsimile 02 9373 7111. Adviser Services 1800 812 950. Investor Services 1800 624 542.