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Finance

**Sort out your bad debts now - Think smart this tax time**

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AS the clock ticks down to June 30, many business owners will be considering writing off bad debts and possibly delaying income until the new fiscal year.

According to Roger Mendelson, chief executive of **debt collector Prushka**, businesses should be reclassifying debts as ``bad" now if they want to claim tax deductions on unrecovered income.

If you miss the deadline, you will pay tax on income you are unlikely to receive.

Mr Mendelson says many businesses make the mistake of waiting until after the financial year's end to review debts they are owed.

``Tax laws state that claiming a tax deduction for a bad **debt** requires a business to make physical efforts to treat them as bad debts before June 30," Mr Mendelson says.

``This year, businesses should be using every opportunity to increase their cash-flow due to reduced profit margins and increased pressure from banks. The financial squeeze on business is also coming from wage pressures arising from low unemployment."

**Prushka**, which acts for more than 41,000 businesses that are currently owed unpaid fees, advises business owners to print out their **debtors** ledger and mark those debts where **bankruptcy** or liquidation has occurred; make a note of those debts which are over six months old, and note the ones which are being treated as ``bad".

**Prushka** handles **debt** and claims recovery for the corporate, small business, medical and insurance sectors - gaining 10-15 new clients per day.

Adrian Raftery from accountantsrUs says his number one tip for SME owners in June is to defer income and bring forward expenses.

``It is always a good idea to try to defer your taxable income to next financial year. For those operating on a cash basis then simply delay the receipt of the income. If you operate on a non-cash basis then you may want to defer your invoicing until next year," Mr Raftery says.

``Got some old plant or stock that your business simply can't sell? Then physically write it off before June 30 and get a tax deduction for it this year. You can value trading stock at the lower of actual cost, replacement cost, or market selling value. This valuation can be applied to each item of trading stock."

Mr Raftery says just because you haven't paid for something doesn't mean that you can't claim it.

`` Businesses are entitled to an immediate deduction for certain expenses that have been incurred but not been paid by June 30, including salary and wages. Claim the number of days employees worked up to June 30, 2010, but have not been paid until the new financial year."

He says it's amazing how many smart businesspeople are really dumb when it comes to reducing tax.

`` Too often I see them paying 46.5 per cent tax on income which could be in put in their lower taxed spouse (0-16.5 per cent) or company (30 per cent)."

Also, if the turnover of your business is less than \$2 million, there are tax concessions you can get including the immediate write-off for assets costing less than \$1000 (set to rise under the proposed Henry Tax Review to \$5000). Plus, the immediate deduction for prepaying expenses such as lease payments, interest, rent, business travel, insurances and subscriptions up to 12 months in advance by June 30.

Mr Raftery says people get caught out at this time of the year by spending money purely to get a tax deduction.

`` If you are running a business via a company then you are only getting 30 per cent back. If you want a \$100,000 tax deduction then I will gladly invoice you and accept payment. Why spend money when you only get a fraction back? Don't get caught out by the fancy marketing of retailers in coming weeks. Always think of my A-B-C motto Absolute Bloomin' Cash."