

Don't forget!

Tips to writing off bad debts before the end of financial year

JUNE 2011

As the countdown to the end of financial year draws closer, businesses big and small are scrambling to get their financials in order to ensure that the books are ready for end of financial year reporting. With June 30th upon us, it is important that businesses remember to write off bad debts before the end of financial year.

What you need to know

Section 25-35 of the Income Tax Assessment Act 1997 (Cth) provides for the deductibility of bad debts as follows:

- (1) You can deduct a debt (or part of a debt) that you write off as bad in the income year if:*
- (a) it was included in your assessable income for the income year or for an earlier income year; or*
 - (b) it is in respect of money that you lent in the ordinary course of your business of lending money.*

With that in mind, here are some handy tips to help you when writing off your bad debts:

- For bad debts to be written off in the financial accounts, they are required to be in writing
- In order to claim a deduction for a bad debt you must ensure this amount is written off prior to the end of the financial year
- To ensure a deduction is allowable the debt must be bad, not merely doubtful
- Writing off a bad debt means that you are losing out on that exact amount of money from your bottom line profit
- Do not forget to claim a refund of the GST paid to the ATO on sales. This strategy is for taxpayers who report income on an accrual basis. Income from business activities will

- generally be returned on an accruals basis and will ordinarily be derived for tax purposes when a recoverable debt arises (i.e. generally when the invoice is raised)
- You can write off bad debt and claim back GST credits when an amount has been outstanding over 12 months.

You should always remember that anything you write off effectively come straight out of your pocket (ie. it's your profit you're writing off). Instead of just writing debts off, review your Accounts Receivable and ensuring you have exhausted all avenues of collection before writing this debt off. Remember, bad debts must be written off **during** the year, not after the end of the financial year.

What does this mean for you?

1. Have a look at your outstanding invoices and see if some date back as far as the previous tax year.
2. Write off the bad debts that have occurred over that period before 30th June.
3. Document the bad debts written off in your accounts .Your business is required to retain written records to justify the written off amounts.

At Butlers Business and Law, we take a special interest in taxation and taxation law. We welcome all queries about how changes to taxation regulation may affect you and your business.

Butlers Taxation and Business Lawyers Pty Ltd.

1 / 17 Darby Street NEWCASTLE NSW 2300 Ph: 02 4929 7002 Fax: 02 4929 6537 contacts@butlers.net.au

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