Holistic Tax, Accounting & Auditing Newsletter

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Special points of interest:

- Increase in Some Tax Rebates and Offsets
- Education Tax Refund
- First Home Savers Account
- Transition to Retirement Pensions
- Can Super Funds Borrow?
- ATO Data Matching

Inside this issue:

Budget 2008/2009

There are often ways to maximise (after tax) disposable income most of which require planning and discipline but the rewards can be significant. Following are some opportunities announced in the Federal Budget where you may be able to make savings for your long term wealth creation.

Child Care Tax Rebate

The above rebate has increased from 30% to 50% for out-of-pocket child care expenses while the maximum claim will increase from $4,354 to $7,500 per child per annum. The rebate is to be paid quarterly through the Family Assistance Office with the first payment expected in October 2008.

Low Income Tax Offset

The above offset has increased to $1,200 per annum (up from $750) phasing out above taxable income of $30,000 and cutting out when income reaches $60,000.

Senior Australian Tax Offset

For eligible people the amount of income that can be earned before any tax liability is incurred has increased to $28,867 for single (up from $25,867) and $21,680 for each member of a couple (up from $21,680).

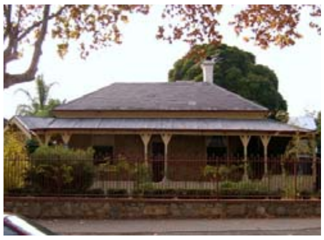
Medicare Levy Surcharge

The threshold above which the Medicare levy surcharge applies (unless appropriate private health insurance is held) has increased to $100,000 for singles or $150,000 combined income or families.

Consider your own circumstances with regard to private health care premiums but remember the broader implications of cancelling private health cover including potentially higher premiums should you wish to rejoin later—check with your fund.

Can you make use of these opportunities to create savings that may be redirected to an investment, reduction of bad debt (i.e. pay off a credit card) or some other form of wealth creation strategy?

As an example as little as $20/wk additional repayment could save you over $100,000 in interest and reduce the term of your loan be over 5 years (based on a loan of $440k at 9.3% pa for a term of 25 years).



The Home Away From Home

Small Business Concessions

The eligibility requirements to be satisfied in order to access various small business concessions in particular capital gains tax relief have once again changed, and it is good news!

To recap, from 1 July 2007 an entity carrying on a business with annual turnover less than $2mil (small business entity) or having maximum net assets (including those of connected entities) of less than $6mil could access a range of capital gains tax concessions.

Difficulty arose where an affiliated entity of a small business owned an asset (i.e. the building) being used in the business. That affiliated entity is not actually in business itself therefore could not rely on the small business entity test.

In the budget the government announced changes such that where an entity owned the asset it could rely on the fact its affiliated entity was conducting a 'business' therefore satisfy the small business entity test.

This is great news for people who hold a property in one entity and conduct their business in a different entity.

Concessions available include the capital gains tax 15 year exemption, the active asset reduction and the retirement or replacement asset exemptions.

Proposed New Tax Refund and Concession

From 1 July 2008 the government intends to introduce the following tax refund and concession;

Education Tax Refund

The proposal is to refund 50% of eligible education expenses. The basics are likely to be;

- Families receiving Family Tax Benefit Part A or with children receiving Youth Allowance will be eligible.
- Eligible expenses include laptop computers, home computers and associated costs, internet connection, education software, stationery and text books.
- The maximum tax offset will be $375 per primary school child and $750 per secondary school children.
- The refund will be claimed through your ITR so keep your records. Note school fees are not eligible for the refund.

First Home Savers Account

A bank or savings account with concessional treatment as follows;

- Contributions and withdrawals (subject to certain conditions) will be tax free.
- Investment earnings (interest) will be taxed at a concessional rate which may be a maximum 15%.
- Government will contribute a % (initial indications are 17%) of the first $5,000 of personal contributions each year similar to the super co-contribution scheme currently existing.
- Eligibility may include;
  - Australian resident aged between 18 and 65.
  - Not previously purchased or built a first home in Australia in which to live.
  - Not previously opened a FSA (limited to one per individual).
  - Make an initial contribution of at least $1,000 with annual maximum cap of $10,000 (indexed each year)
  - Quote their tax file number and meet proof of identity requirements.

Note: It appears each member of a couple can have one account so doubling your benefit.

Salary Packaging

Changes to superannuation and announcements in the budget provide both good and bad news for salary packaging opportunities.

First the bad news;

Fringe Benefits Tax

The government intends to tighten legislation with regard to current exemptions for FBT on laptops and mobile phones in particular.

You must now be able to show the items are used primarily for work for the benefit to be exempt FBT. How much private use will be allowed is yet to be revealed.

From 13/05/08 employees are prevented from claiming depreciation on salary packaged laptops so closing the double benefit formerly available.

On a brighter note the minor fringe benefit threshold increased from $100 to $300 (GST inclusive) and benefits provided at the same time are no longer aggregated but are assessed separately.

Transition to Retirement Pensions

Now the good news. For those aged over 55 and still working you may be able to consider a transition to retirement pension.

If you have sufficient superannuation you elect to receive a transition to retirement pension. For those aged 55 to 60 the pension may not be tax free but a 15% tax offset reduces the tax liability. For those aged over 60 the pension is tax free.

Once your superannuation account commences funding a pension the earnings attributed to that account balance are not taxed within the fund.

You then salary sacrifice some or all of your employment income into your super fund so it is not taxable in your hands. You may be able to receive the same amount of income overall but pay less or no tax on it.

Of course the results depend on your specific circumstances however the strategy can produce tax savings which are better in your pocket than the governments.

First Home Savers Account - The Government will make a co-contribution of 17% of the first $5,000 per annum.

Every Dollar You Save Counts Towards Your Long-Term Wealth

Salary Packaging Continued

Living Away From Home Allowance

With the current boom in the mining sector and associated industries there may be some opportunities to salary package some living costs for yourself and your family into your total remuneration package.

An effective allowance is not included in your PAYG Payment Summary and is not taxable income to you. The employer is liable to pay FBT however by using the ATO guidelines the allowance may incur no FBT therefore be cost neutral to the employer. The bottom line is some of your living costs are paid from pre-tax income producing tax savings.

As an example if your current remuneration is $85,000 and you are able to package $15,000 of food and accommodation costs while living away from home your taxable income would drop to $70,000 producing a basic tax saving of $5,000 (based on individual marginal tax rates for 2008/2009 tax year).

Superannuation Update

Super Funds Can Borrow!

Superannuation legislation has allowed funds to borrow in certain & very limited circumstances for some years. Recently the government introduced legislation to more clearly define the borrowing restrictions.

As a consequence it appears possible for a fund to 'borrow' to acquire a broader range of assets than previously allowed.

There are very detailed rules as to how an acquisition must be structured to meet the borrowing restrictions.

It is essential professional superannuation advice is sought BEFORE committing to any purchase.

Control of Your Superannuation

You may have heard horror stories of families involved in bitter disputes over family assets. With the increase in self managed super funds, and member account balances in general the asset can be a significant issue in your life (and after your life). Care needs to be taken with control of the funds and can be considered under 3 key areas;

Control by the Member

The member can advise the trustee(s) who they wish should receive their death benefit. Alternatively a Binding Death Benefit Nomination (BDBN) may be completed which the trustee(s) must abide by. A BDBN is like a will for your super.

A BDBN also has its problems. If accepted as valid the trustee(s) have no discretion therefore those you nominated will receive what you decided at the time you completed the nomination. The problem is since your BDBN was signed the beneficiary's circumstances may have changed resulting in unintended consequences. For example taxation on a benefit depends on whether the beneficiary is dependant or non-dependant and benefit is paid as a lump sum or pension. The difference could be tens of thousands of dollars in additional tax. Consider also if your child were about to go through a divorce!

Two other areas of control relating mainly to self managed super funds are;

Control by the Trustee(s)

The fund deed and superannuation legislation provide guidelines as to what the trustee(s) may do however it is those trustees who decide on the acceptance of your BDBN or how to exercise their discretion in the allocation of benefits to your beneficiaries.

Control of the Trustee

Do you know exactly what changes will occur with the key office holders of your fund in the event of your death?

Where trustees are individuals the fund's governing rules should be examined to determine who replaces the deceased trustee and appointor.

With a corporate trustee similarly examine the constitution as to who replaces the deceased director.

Ultimately the appointor of the fund or holder of majority voting rights may appoint and remove the trustees who exercise day to day control of your fund.

It is recommended you carefully consider the characters and capabilities of those who will replace you as trustee of what could be a significant asset.

Do you know who controls your super nest egg and who will receive your benefits following your death?

Who Will Receive Your Superannuation Nest Egg?

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Practice News

New Scope of Engagement - We have updated our 'New Engagement Terms & Conditions' a copy of which can be found on our website located under the 'downloads' link.

By continuing to use our services we will assume you have read the terms, agreed to them and will abide by them in all future dealings with us.

Staff Changes - After many years of service we farewell Robyn who has chosen to return to work for a former employer. We wish Robyn well and are sure she will have her boss in line soon.

We welcome Anna who is currently studying accounting and is working part-time with us providing both administration support and tax return preparation.

Professional Fees - Please remember our terms for payment are 7 days. It is time consuming reminding debtors hence our application of the monthly administration fee (advised last year) is being actively applied.

If you have any questions about the content of this newsletter or on other issues please contact our office.

Australian Government
Australian Taxation Office

ATO Plans for 2008/2009

Once again the ATO received a boost in funding in the budget to improve their compliance programme. The ATO announced their interest this year will include, amongst other things, the following;

Data Matching

The ATO already receives interest and some dividend information from banks and share registry services. They intend also to check property sales information to identify unreported capital gains in ITRs. They can also check purchases of luxury cars, boats, collectables etc in relation to GST ITC's claimed, unreported FBT etc.

Overseas Investments

The ATO is already exchanging information with a number of countries overseas in order to cross check use of bank accounts, property ownership and foreign income. While this affects only a small number of taxpayers it is indicative of the lengths the ATO will go to detect tax avoidance.

Tax Payer Alerts

The ATO issues alerts through the media identifying schemes they consider illegal. Recently the ATO identified 'wash sales' of shares where a loss making share is disposed of to crystallize a capital loss but control is retained by buying back the share or having transferred the share to a related party or entity.

Another recent alert relates to claiming a deduction for a 'pre-payment' of service fees invoiced but not in reality paid.

ATO Compliance Programme

Each year the ATO announces industries where it intends to focus audit attention. This year it is the turn of construction industry workers with a particular emphasis on un-lodged ITR's and unpaid child support.

The ATO advise they will also pay special attention to work related expenses of employees in the following industries;

- tourism and travel,
- fitness and sport,
- guards and security,
- mining.

Also in the spotlight are rental property deductions. Areas of concern are incorrect apportionment of interest deductions, claims for capital works or initial repairs at repairs & maintenance label, borrowing costs being claimed in full instead of spread over 5 years or term of loan (if < 5yrs).

The ATO also intends to crackdown on income splitting using the Personal Services Income rules. The ATO considers any income earned by the skills or effort of an individual (irrespective of what business structure is used) should be assessable to the individual.