

June 2010

## Client Newsletter



## FEATURES

Business Year End Tax Planning	2
Personal Checklist	3
Superannuation	5
Reminders	6
Budget Updates	6
Car Expenses	7
What your Future Holds	8
Peninsula Financial Group	8

## IT'S TAX TIME AGAIN

### Welcome to our financial year end Newsletter

This Newsletter is full of year end planning strategies and tips to help you reduce your income tax liability. We also have a variety of other topics that may effect your business or you personally. Contact a Principal of this firm for further information.

### OUR SERVICES

Shepard Webster & O'Neill Pty Ltd provides a comprehensive range of business advice and accounting services, with specialists in the areas of taxation, business services, audit and assurance services and financial planning. Our long history of commitment to service excellence and client satisfaction has contributed to our current leadership status. We can optimise your company's profitability through;

- budgeting & planning
- preparation of financial statements
- business and ownership structures
- trusts, asset protection and estate planning
- family business advice
- superannuation advice
- retirement planning
- access to accounting staff

### YEAR END TAX PLANNING

Now is the time to commence the collation of your documents for your 2009/10 income tax return. Now is also the time to commence careful consideration of any pre year end tax planning, including the deferral of income, the acceleration of deductions, and other planning initiatives.

### PERSONAL CHECK LIST

In this edition we provide notes for the preparation of individual tax returns. Please provide lists of the various income and deduction items, ensuring that all information is complete before seeing us.

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## BUSINESS YEAR END TAX PLANNING

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A little time spent on forward planning can have a significant effect on reducing or deferring your income tax liability. This can be achieved by applying the following strategies which will postpone the derivation of revenue and bring forward or maximise deductions.

- The rules for claiming prepayments of services such as rent, insurance, advertising, repairs or printing (providing the services will be fully provided within 13 months) suggest that they should be an allowable deduction for small business taxpayers (those with an annual turnover of less than \$2 million). However to be deductible, an expense must be incurred and the payment must not be merely voluntary, hence check contracts and lease agreements to ensure there is an option which enables the tax deduction for advance payments.
- For businesses with a turnover greater than \$2 million, deductions are allowable proportionately over the period to which the services relate. Note, however that prepayments of less than \$1,000 are still deductible when the payment is made.
- Write off all known bad debts before 30 June.
- Paying contributions to superannuation funds prior to 30 June. It is essential that the fund receive and bank the cheques before 30 June.
- Advance sale of assets that will produce a capital loss to offset capital gains already made in this year.
- Deferring the sale of assets that will result in a capital gain, particularly if there are not losses against which an offset can be made.
- Ensure employee bonus obligations are incurred before year end.
- The depreciation rates for plant purchased or constructed is determined by reference to its effective life. Only proportionate claims are allowed in the first year.
- Management fees should reflect the services provided and agreements drawn in advance. Deductions are not allowable when the fee is not commercially sustainable and arms length (TR 2006/2).

In addition to these planning techniques, there are a number of areas that all clients should be aware of as the tax year rapidly comes to a close. If these apply to you or your business, please ensure that they are addressed in sufficient time for the appropriate action to be concluded before the 30 June deadline.

### ***Superannuation Guarantee Charge***

The minimum level of superannuation contribution remains at 9% for the 2009/10 year, and must be received by the fund before 30 June to be deductible in the 2009/10 year. Any shortfall will be payable as a Superannuation Guarantee Charge and will not be tax deductible.

### ***Stocktake***

All businesses that hold stock are strongly advised to conduct a physical stocktake as at 30 June. It is our experience that guesses can be quite inaccurate. Particular attention should be given to valuing stock at the lower of cost or market value (excluding GST), including allowing for slow moving or obsolete stock.

### **Private Companies**

Loan accounts owing by shareholders and employees should be repaid before year end.

### **Insurances**

All your insurances should be reviewed at least annually. Over time, and with the ever-changing types of insurance available, many policies are either inadequate or inappropriate. Reviews should cover the following:

- are all risks covered?
- are the sums insured adequate?
- are the premiums competitive?

Due to the state of the insurance market, clients are urged to start this process well in advance of the renewal date.

### **ASIC FEES**

From 1 July 2010 Fees relating to ASIC will be indexed in line with the Consumer Price Index (CPI). The cost of the Annual company review fee will increase from \$212 to \$218.

### **ATO NEW COMPUTER SYSTEM**

Over the Australia Day long weekend the ATO converted to a new tax processing system. This has resulted in delays during the last 4 months in processing activity statements and income tax returns at their office. We are hopeful that all the teething problems in undertaking this mammoth task are now in the past and look forward to smoother times ahead.



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## **PERSONAL CHECKLIST**

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### **Information for personal returns**

To enable us to comply with appropriate quality assurance requirements, please compile lists of data as appropriate to you and submit them to us for preparation of your tax return.

#### **Income**

Details of all income - include wages, interest, director's fees, pensions, unemployment benefits, termination payments, royalties and insurance proceeds. Please provide a list.

#### **Interest**

Interest earned in all accounts must include interest which has been credited to an account, even if allowed to accumulate. If TFN withholding tax has been deducted, you must let us know. Please provide a list.

#### **Dividends / Trust Distributions**

Provide a detailed list of dividends to indicate franked and unfranked amounts, and imputation credit amounts. We prefer that you supply copies of the notices as this data can be confusing. Please also supply the notices for any reinvestment plans.

#### **Dependants Rebates**

Details of name, address, date of birth and income (including items mentioned above) required where applicable for:

- Spouse - please advise the amount of Family Tax Benefit received and any other separate net income.
- invalid relative
- sole parent (details of only one child are required)

#### **Family Tax Benefit - Part A & B**

FTB claims cannot be made through the tax system, regardless of the year in question. Taxpayers will need to lodge their claims through the Family Assistance Office at Centrelink, Medicare offices, or online at [www.familyassist.gov.au](http://www.familyassist.gov.au)

### ***Concessional Rebate***

If your total expenditure on net medical expenses after refunds from Medicare and health funds for yourself and your dependants exceeds \$1,500 please provide an itemised list of:

- medical expenses
- hospital expenses
- dental expenses
- optical expenses
- chemist expenses
- refunds received from Medicare and/or private fund.

### ***Private Health Insurance***

Details of cover (hospital and/or ancillary) and premium paid, and the period of cover if not a full year. Please also advise whether the Government 30, 35 or 40% rebate has been claimed direct from the fund.

### ***Work Related Expenses***

Next year's subscriptions, professional memberships and union dues can all be pre-paid and claimed this year.

### ***Other Deductions***

Supply details as necessary of non - employer sponsored superannuation fund contributions.

If you wish to claim expenses in relation to your employment, please ensure you have receipts and other satisfactory substantiation data.

- union/trade subscriptions
- personal accident premiums - (company, policy no, premium)
- gifts/donations (only if over \$2)
- any other expenditure in connection with salary/wages income
- motor vehicle costs, including log book data

### ***Employee Share Schemes***

All discounts on shares and options provided by an employer, are assessed in the income year in which they are acquired.

### ***Education Tax Refund***

The ETR helps eligible families and independent students meet the cost of education incurred in supporting a child during school. The ETR extends to those families that are entitled to Family Tax Benefit (Part A). The entitlement begins to phase out at an income threshold of \$98,672 depending on the number of children in the family. Expenditure examples include laptops, home computers and associated costs, internet connection, printers, paper, education software, school textbooks and materials, prescribed trade tools etc. Note that academic tuition fees and uniforms are not allowed. The maximum claim is 50% of eligible expense up to \$750 for primary and \$1500 for secondary school students.

### ***Capital Gains Tax***

If you have sold any assets except private motor vehicles during this financial year you must provide details. Any property now sold and acquired after 19 September 1985 must be fully disclosed. Copies of relevant documents should be supplied for both purchase and sale, including dates and financial details.

### ***Fringe benefits***

Where the taxable value of certain fringe benefits provided to an individual exceeds \$2,000, the grossed up value of these benefits must be disclosed on the employee's PAYG Summary (formerly a group certificate). Benefits that are excluded from this reporting requirement include entertainment, car parking and certain remote area housing benefits.

### ***Entrepreneurs' Tax Offset***

The entrepreneurs' tax offset allows a tax offset of up to 25% of the income tax of an SBE (formerly STS) business with an annual turnover of less than \$75,000. If SBE turnover is more than \$50,000 the tax offset is phased out until it equals zero at a turnover of \$75,000. This offset is available to an individual or company that is an SBE taxpayer, a partner in an SBE partnership, and a trustee or beneficiary of an SBE trust.

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## SUPERANNUATION

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### ***Concessional (deducted) contributions***

For the 2009/10 year Concessional contributions are capped at \$25,000 per person per annum. Transitional arrangements allow people aged between 50 and 75 to make up to \$50,000. For employer contributions, this includes both SGC and salary sacrifice contributions. For personal contributions, this includes contributions claimed as a tax deduction. Please be aware this limit is the combined total for all your superfunds. Any super contributed over the cap amount is subject to additional tax.

### ***Non-concessional (undeducted) contributions***

Non-concessional contributions are limited to \$150,000 a year (or people under 65 can make contributions of up to \$450,000 over a three-year period). From 1 July 2010 the non-concessional cap will be calculated as **six times** the level of the (indexed) concessional cap i.e. \$150,000 (\$25,000 x 6).

### ***Self employed contributions***

An eligible self employed person can deduct the full amount for superannuation contributions to the limits set out above, aligning the treatment for the self employed to the treatment for employers. Contributions are deductible until age 75.

### ***Minimum Pension amounts***

For individuals taking pensions from their Self Managed Super funds, the relief granted by the Government of reducing the minimum annual pension payment by 50% will end on 30 June 2010.

### ***Super Co-Contribution***

The Government co-contribution initiative is in full swing with the eligibility threshold cutting out when assessable income reaches \$61,920. The matching co-contribution rate remains at 100%, to a maximum of a \$1,000 entitlement.

### ***Self Managed Superfund Fees***

The recent downturn in the economy is concerning to all investors. Despite falling incomes, the cost of maintaining your fund has not diminished, with continual changes to the Legislation governing Superannuation and increased salary costs within the accounting profession.

A number of issues that increase the costs of recording and compliance are:

- The use of multiple bank accounts
- High volume of transactions
- Lack of supporting documentation
- Uncontrollable corporate takeovers
- Additional compliance and setup when a fund is converted to a pension or transitional stage

Every fund is required to have an annual compliance audit, therefore there needs to be a paper trail for every transaction. If you wish to discuss steps you may take to minimise your fund's compliance costs please contact a principal of the firm.

### ***Gearing through a SMSF***

Borrowing through a superannuation fund as a way of building wealth can be an attractive option for some trustees. Legislative changes introduced in September 2007 allow self-managed superannuation funds (SMSF) to borrow under what is currently known as an instalment warrant or limited-recourse arrangement. An instalment warrant allows a SMSF trustee to pay a small part of the cost to purchase an asset upfront, and borrow the rest. The asset is then held in trust for the life of the loan but the SMSF has the 'beneficial interest' in the asset. So if, for example, the asset is shares in a company, the SMSF will receive the dividends during the course of the loan. Another use of instalment warrants is to purchase commercial property.

A superannuation gearing strategy will not be suitable for everyone and the merits of the strategy should be examined on a case by case basis. It is essential that you speak to us prior to making any investment decisions in relation to this.

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## REMINDERS

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### ***GST***

Do you need to register for GST? An unregistered enterprise must register for GST if turnover exceeds \$75,000. Do you need to change your method of remitting GST? A registered enterprise with a turnover in excess of \$2 million is obliged to remit and claim on an accruals basis.

### ***Log Books***

Is your vehicle log book up to date? The twelve week period on which the business percentage is based must fall within a five year period. When setting the business proportion, allowance should be made for abnormal usage falling outside the test period.

### ***Quickbooks/ MYOB /Cashflow Manager***

Make sure when sending your data via disk, CD or email you clearly identify the program, version number and password if any.

### ***Backups***

With external media becoming cheaper and cheaper, there's no excuse. Don't get caught out!

- back up your data weekly, if not daily; and
- check your backups to make sure the data has copied correctly.

### ***Payment Summary Annual Report***

Clients who are registered for PAYG withholding need to lodge their annual summary statement by 14 August. If you engage us as tax agents to prepare the report an automatic extension is granted to 30 September. A further extension is granted if there is tax agent involvement and the annual report has only closely held payees e.g family members of a family business. In this situation the annual report must be lodged by the due date for the payer's income tax return.

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## BUDGET UPDATES

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### **FEDERAL BUDGET 2010-2011**

On Tuesday, 11 May 2010, the Federal Treasurer handed down the 2010-11 Federal Budget. The "no frills" Budget sees a forecast deficit of \$40.8 billion, down from the \$57 billion deficit forecasted a year ago. The economy is looking stronger with forecast real GDP growth of 3.25% in 2010-11. Highlights of the Budget include;

- Resource Super Profits Tax of 40% based on profits for non – renewable resource projects
- Company tax rate cut to 28%
- Instant asset write off for assets under \$5,000 for small business
- Increasing the super guarantee to 12%.
- Lower tax on savings – 50% discount on up to \$1,000 of interest income
- Optional standard deduction for work related expenses of \$500
- Workers age 50 and over with super balances below \$500,000 will be able to make up to \$50,000 in annual concessional super contributions

*NOTE: It is important to remember that the highlights above are merely proposals at this stage and are yet to be passed in Parliament.*

### **STATE BUDGET 2010-2011**

The Victorian Government has handed down a Budget focused on investment in infrastructure and securing jobs. Major investment areas include:

- A \$4 billion investment in the health system
- Regional Rail Link
- Continuation of water projects including the desalination plant
- Increase in frontline police numbers

There were no changes announced to the state's tax structure.

## CAR EXPENSES

Taxpayers have the choice of four methods for claiming car expenses (fuel, repairs, tyres, registration and insurance, lease charges, interest on a car loan, depreciation, etc.). The conditions for each of these methods are summarized below. It should be noted that the 12% of cost and one-third of actual expenses' methods could only be used if more than 5,000 business kilometres are travelled during the income year.

### *Cents per Kilometre Method*

The set rate per kilometre method can be adopted any time. A claim of up to 5,000 business kilometres will be allowed where the vehicle travels more than 5,000 business kilometres during the financial year. Substantiation is not required but claims must be based on a reasonable estimate.

### *12% of Cost*

A deduction will be allowed based on 12% of the cost of the vehicle subject to the depreciation cost limit. For the 2009/2010 year, the limit is \$57,180. The deduction will be reduced in proportion with the number of days in the year the vehicle was not owned or leased by the taxpayer. The deduction is based on the cost of the car when acquired or if under lease, the market value when the lease was taken out.

### *One-third of Actual Expenses*

Taxpayers can deduct one-third of the total running costs of the car that would qualify as a deduction. Substantiation is required under this method for all expenses, although claims for petrol and oil may be reasonably estimated based on odometer records and average fuel costs and fuel consumption statistics.

### *Log Book Method*

A logbook is kept for a minimum continuous 12-week period. Business and total kilometres during the period are determined. The taxpayer is then required to make a reasonable estimate of the

annual number of business kilometres travelled by the car. When making this estimate, taxpayers will need to take into account any log books, odometer records and changes in the pattern of business use of the car.

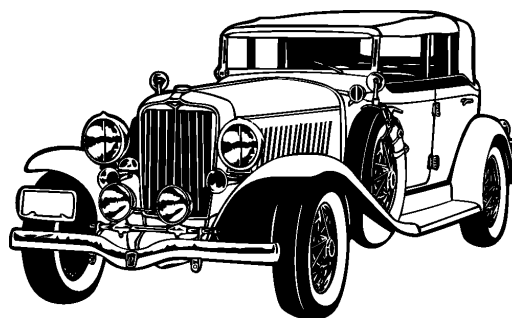
The business kilometre estimate is then calculated to arrive at the relevant business use percentage. Allowable car expenses are multiplied by the business use percentage to calculate the deduction. Other than petrol and oil, which can be supported by odometer records, all expenses must be substantiated.

### *Commercial vehicles*

Employee use of certain commercial vehicles will be exempt from FBT where the only private use is home/work travel by the employee. This exemption can apply to panel vans or utilities designed to carry a load of less than one tonne, and other vehicles that are not designed mainly to carry passengers. 'Crew cabs' and 'dual cabs' do not fall under the definition of "utilities" and are only allowed the exemption if they are designed to carry a load of 1 tonne or more, or more than 8 passengers.

### **FUEL TAX CREDIT RATE CHANGE**

The new fuel tax credit rate for fuel used in heavy vehicles travelling on a public road has decreased to 16.443 cents per litre.



## WHAT YOUR FUTURE HOLDS

2010 is the start of a new decade and is an appropriate time to pause and consider what you need to do financially for personal and business reasons.

Some things to consider include:

- When did you last update your will?
- Do you need to put in place a testamentary trust if you have dependants who may be in rocky relationships?
- Do you have a valid power of attorney and medical power of attorney?
- When did you last review your retirement goals – how much super do you need in retirement?
- How will you accumulate the super to achieve a satisfactory lifestyle when retired?
- Do you have adequate insurance cover on your home, contents and income?
- Would you benefit from setting a budget annually?
- What is your preferred financial situation ten years from now:
  - Own your home?
  - \$1m in super?
  - Both?
- Where is your business heading – what will it look like in five to ten years?
- Who will acquire it from you?
- Does the business have sufficient internal funding and working capital or will you need to borrow to achieve its potential? How best do you do this?

Now is a good time for your Accountant to work with you to ensure your goals are met over the next ten years.



## Peninsula Financial Group

Our Financial Planning arm, Peninsula Financial Group provides comprehensive financial planning services to a wide spectrum of clients from wealth accumulators to retirees.

Our core service is to establish and manage specialist investment and superannuation portfolios cost effectively, without the impost of commissions or entry/exit fees where possible.

Peninsula Financial Group is an authorised representative of Lonsdale Financial Group, an Australian Financial Services Licensee, who specialise in providing financial services for Accounting firms around the country.

### Key aspects of our service include:

- Regular access to professional personal financial advice,
- Specialist superannuation and investment portfolio management supported by extensive research, & a robust investment framework,
- Formal bi-annual review of investments & financial position,
- 24hr online access to portfolio reporting, & quarterly hardcopy reporting,
- Full administration of investments
- Comprehensive insurance advice & review.

Please contact our Certified Financial Planner, Lyle Weir for more information.

### DISCLAIMER

*We remind you that this Newsletter is prepared exclusively for our clients, and whilst every care is taken in its production, we cannot be held responsible for errors. We particularly do not recommend that any decisions be made on the basis of this Newsletter without further consultation with a Principal of this firm. In relation to investments, only general information is provided and this does not take into account investor's specific needs or objectives, so clients should seek individual investment advice.*