

June 2011

Client Newsletter



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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 2010/11 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.

BUSINESS YEAR END TAX PLANNING

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 2010/11 year, and must be received by the fund before 30 June to be deductible in the 2010/11 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. This is very complicated legislation, so please contact us for advice.

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.

WORKCOVER REMUNERATION

From 1 July 2010, for Victorian employees, any rateable fringe benefits declared for wages will need to be grossed up by a rate of 1.17384. Worksafe will be phasing in a total gross up rate of 1.8692 over 5 years. Please contact us, or your Workcover insurer for a more detailed explanation.

PERSONAL CHECKLIST

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

Concessional Rebate

If your total expenditure on net medical expenses after refunds from Medicare and health funds for yourself and your dependants exceeds \$2,000 (increased from \$1,500 in 2009/10) 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. This is a change in legislation this year. There are however some exceptions, so please contact us for further information.

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 \$98,764 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. School uniforms will be allowable from 1 July 2011. The maximum claim is 50% of eligible expense up to \$750 for primary and \$1,500 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.

TEMPORARY FLOOD LEVY

The Government will apply a temporary flood levy in the 2011/12 financial year, to assist with part of the costs of rebuilding infrastructure following the recent floods.

The levy will recognize capacity to pay. It will be designed so that low income earners do not pay anything. Higher income earners will be expected to pay a bit more.

The levy will apply as follows:

- individuals with a taxable income of \$50,000 or less will pay a nil levy.
- individuals with a taxable income between \$50,001 and \$100,000 will pay 0.5% levy on the part above \$50,000
- individuals with a taxable income of \$100,001 or more will pay 0.5% levy on the part between \$50,001 and \$100,000 (being \$250) and 1% levy on the part above \$100,000.

SUPERANNUATION

Concessional (deducted) contributions

For the 2010/11 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). The non-concessional cap is 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 2011.

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 & Insurance Policies

Trustees should immediately review any life insurance policies in their super fund relating to 'total and permanent disability' (TPD).

The three main types of TPD definitions include 'any occupation', 'similar occupation' or 'own occupation'. From 1st July 2011, a full tax deduction will only be allowed for TPD contracts which contain an 'any occupation' definition.

As part of the review the policies ownership should also be checked to ensure that it is in the name of the superfund.

Our affiliated financial planning business the Peninsula Financial Group (9783 4999) would be very pleased to review your insurances. Give them a call.

Self Managed Superfunds & Investment in Collectables and Personal Use Assets

The Government announced that from 1 July 2011 legislation will be tightened to place restrictions on SMSF investment in collectables and personal use assets. Any existing collectables and personal use assets that do not meet the new requirements will be required to be disposed of by 1 July 2016.

Possible legislation includes that the investment must be:

1. part of the SMSF's investment strategy
2. acquired at a priced accompanied by an independent valuation
3. where leased or exhibited, on terms and conditions that are of a commercial nature
4. not acquired from or leased to a related party
5. not stored or maintained in any premise, owned or occupied or used by a related party
6. valued by a qualified valuer prior to disposal and sold at or above that valuation.

REMINDERS

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.

BUDGET UPDATES

FEDERAL BUDGET 2011-2012

On Tuesday, the 10th May 2011 the Federal Treasurer delivered the 2011-12 Federal Budget with a forecast deficit of \$45.7 billion. Highlights of the Budget include;

- Minors no longer entitled to claim low income tax offset to reduce tax payable on unearned income such as family trust distributions.
- Phasing out of dependent spouse tax offset for taxpayers with a dependent spouse born on or after 1 July 1971.
- HECS/HELP up-front payment discount reduced from 20% to 10%.
- Small business to benefit (from 1 July 2012):
 - Immediate write-off of first \$5,000 of any motor vehicle purchased
 - Immediate write-off of all assets valued at under \$5,000
- Change to the FBT statutory rate for cars – flat 20%.
- Refund up to \$10,000 on excess super contributions for first time offenders and taxed at their marginal rates.
- Minimum pension draw downs reduced by only 25% for the 2012 income year.
- Higher concessional superannuation contributions cap to remain at \$50,000 for individuals aged over 50 where their member balance is less than \$500,000.

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 2011-2012

The Victorian Government handed down a Budget focused on election commitments and stabilising the state's debt over the next four years. Major highlights include:

- \$448m for new hospital beds.
- \$400m to halve stamp duty for first- home buyers by 2014.
- Public transport with 7 new trains, and railway crossing / maintenance increases.
- An increase of 1600 in frontline police numbers.
- The \$300 school start bonus for children starting prep or year 7 will become means tested by effectively requiring a family to be a holder of a concession card (includes health care cards).

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 2010/11 year, the limit is \$57,466. 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.

SALARY PACKAGING

Salary Packaging is an arrangement between an employer and an employee, where the employee agrees to forgo part of their future entitlement to salary or wages in return for the employer providing them with benefits of a similar value, before tax is taken out.

The reason behind packaging is that some non-cash benefits are taxed at lower rates than cash wages. The most common examples of benefits packaged are motor vehicles, superannuation and laptops.

Salary packaging may not benefit everyone and in some cases can leave the employee in a worse position than if they had received wages. The main reason for this is either the benefit is taxed at a higher rate or a higher deduction may be claimed in a personal return. For further information please contact a principal at our firm.



Peninsula Financial Group

SCAM EMAILS & IDENTITY THEFT

Scam Emails

Please be aware that there are fraudulent email's being circulated that claims to offer a refund from the Tax Office. The email asks people to click on a link which redirects them to a bogus website that looks similar to the Tax Office website and asks for credit card and personal details. If you have received this email lately please let us know.

Identity Theft

Identity crime happens when someone uses a manipulated, stolen or assumed identity to commit fraud or other crimes.

Identity criminals take other people's details by:

- Stealing purses, wallets, mail or mobile phones
- Sifting through rubbish
- Advertising & interviewing for a job that doesn't exist
- Asking questions whilst pretending they are government, bank or other representative.
- Reading information from a social networking page
- Luring you to click on a link in an email or on the web that captures your details.

Tax file numbers should be kept secure at all times and the only people entitled to ask for your TFN include the Australian Taxation Office, Centrelink, your superannuation fund, bank or financial institution, and your employer (only after you have started working for them).

Quarterly Investment Update

<i>Market Returns</i>	<i>3mth %</i>	<i>1yr %</i>
<i>Australian Shares</i>	3.12	3.79
<i>International Shares (A\$)</i>	3.99	1.21
<i>US (US\$)</i>	5.92	15.65
<i>Asia (US\$)</i>	2.39	22.52
<i>Europe (Euro)</i>	0.90	7.50
<i>Japan (YEN)</i>	-2.63	-9.89
<i>Australian Listed Property (non-residential)</i>	3.73	4.74
<i>Global Listed Property (non-residential)</i>	5.57	22.40
<i>Fixed Interest</i>	2.04	6.86
<i>Cash</i>	1.22	4.87

The first quarter of 2011 proved to be a volatile one with many global events hurting investor confidence. Despite this, positive returns were recorded across all markets other than Japan. The strength in the Australian dollar again ensured investing overseas was not as positive as could otherwise have been.

The extra market 'noise' over the quarter has boosted the phenomenal flow of funds into the safe haven of term deposits. Over the last two years Australians have invested a reported \$230bn in term deposits whilst the net amount invested in Australian shares over this time has been zero. With the average dividend on Australian shares increasing (on the back of strengthened balance sheets) to now above that earned from cash deposits, the opportunities to gradually switch some cash into shares are becoming more favourable.

Contact Lyle or Michelle at Peninsula Financial Group (9783 4999) to discuss these opportunities in greater detail!

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.