Globe Accounting Pty Ltd

Certified Practising Accountants

June 2007 Newsletter

Hello to all our workers out there.

Another financial year is drawing to a close, so this edition includes a brief look at tax planning basics as well as a fairly in depth look at the super changes that will occur from 1st July.

We have all been very busy in the office; all 2006 income tax returns were lodged on time and we are now in the process of finalising the tax planning work for many of our businesses.

In July we will welcome another professional to our staff. Shannon Aspinall completed her business degree last year and will work part time with us while commencing her CPA programme. We look forward to introducing Shannon to you on your next visit.

Kerren Siddans has been working part time in reception as she job-shares with Maureen who will take more time off over the coming year. Many of you may have spoken with Kerren over the phone on your recent contacts with us.

We welcome all our new clients that have climbed aboard in the last few months and thank our existing clients for your continued loyalty and support. 2007/2008 will see us continuing to expand our financial planning business with Peter, as well as our business services. We will continue to hold topical client seminars to keep you informed of any changing legislation. If there is any topic you are interested in, please let us know and we will do our best to arrange a seminar for you. Chances are if you want to know about it, so do others! We will hold some training sessions in August for clients that have moved across to Banklink, so watch out for that information.

We wish you and all your family a very happy and prosperous New Financial Year and look forward to working with you in the next 12 months to help you achieve your business goals.

Pauline, Peter and staff.

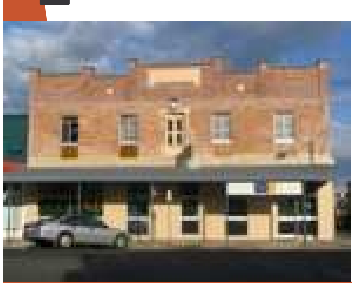
What's new for the financial year?

A series of substantial changes take effect from 1 July this year. We've summarised these changes so you can see the ways in which you can maximise the opportunity or minimise the risk of change.

More changes to individual tax rates

As announced in the recent Federal Budget, new individual tax rates and thresholds apply from 1 July 2007.

2007/2008 Income Tax Thresholds ($)	Tax Rate %
0 – 6,000	0
6,001 – 30,000	15
30,001 – 75,000	30
75,001 – 150,000	40
150,001 +	45



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If you use a payroll software package to calculate the amount to withhold from salary and wages, please ensure your tax rates are updated to reflect the changes.

With the changes to the income tax thresholds, it's worth reviewing salary package arrangements to see if they are still worth the administrative effort.

Concessions for businesses under $2 million
Is your business turnover under $2 million? A major change was introduced into the Parliament last month that will streamline how many of the tax concessions apply to businesses with an aggregated turnover below $2 million. The changes standardise the eligibility criteria for accessing the small business concessions for GST, the Simplified Tax System (STS), Capital Gains Tax, Fringe Benefits Tax and PAYG instalments. While this might not sound like a big deal, the change means that more small businesses will be able to access the concessions as the threshold has increased and some of the hurdles complicating access have been removed.

Let's put the impact of the change into perspective. More small businesses will be able to access concessions such as the CGT small business concessions that provide the opportunity to reduce to nil the CGT payable on the sale of your business. Then there is the Simplified Tax System. STS can make a big impact on the speed at which you depreciate plant & equipment (for example, depreciable assets below $1,000 can be written off in the year you started to use the asset. Other depreciating assets with an effective life of less than 25 years are added to a pool and depreciated at the diminishing value rate of 30%). If you were unable to access these concessions last year, you might qualify in the upcoming financial year.

GST & PAYG changes
As you know, to claim an input tax credit you need to have a valid tax invoice for purchases over $50. From 1 July 2007, this threshold amount increases to $75 (not including GST).

On the flip side of this is the need for businesses to withhold tax when a supplier does not provide a valid ABN. The threshold change also applies to the 'no-ABN withholding' arrangements. So, unless the amount is $75 and above, you will not need to withhold tax from a payment to a supplier where an ABN has not been provided.

Superannuation
Under the new superannuation system, employers now have to pass the employee's tax file number (TFN) to the employee's nominated superannuation fund within 14 days of the employee quoting it or before the next contribution is made.

With the new contribution limit of $50,000 per person per annum for deductible contributions ($100,000 per annum until 30 June 2012 for those aged 50 and over), it's a good time to review salary package arrangements to ensure that they do not breach this limit. If contributions are made above the $50,000 limit, the excess amount of the contribution is taxed at a further 31.5% in the employee's hands, on top of the 15% tax paid on entry to the fund. In addition, the excess counts towards their undeducted contribution limit.

From 1 July, employers can claim a full deduction for contributions made on behalf of their employees under the age of 75 (an employer's obligation to pay the superannuation guarantee ceases at age 70. If superannuation is paid, it is by agreement not by obligation).

Some of the super terminology will also change with eligible termination payments now called employment termination payments.

The essential financial year end jobs to complete

Shareholder Loan Accounts (companies only)
If you have a debit loan account this can be deemed an unfranked dividend in the hands of the shareholder. A debit loan account can be caused where the company makes payments on behalf of the shareholder or advances funds to them.

Where an unfranked dividend occurs, the dividend is declared as income on the shareholder's personal tax return and taxed at their marginal tax rate (no imputation credit is available). The company's franking account balance is also reduced.

If you have an outstanding debit loan with your company, you need to decide how you will manage this. You may need to have a loan agreement put in place. If you already have an existing loan agreement then make sure that you make the minimum loan repayments before June 30. The rules surrounding shareholder loan accounts are complex and if this situation applies to your company, it is important to talk to us as soon as possible to manage your company's requirements.

PAYG Payment summaries due

Don't forget to provide all of your staff with their PAYG Payment Summary on or before 14 July 2007. This includes any staff that left your employment during the 2006/07 financial year. Your annual PAYG Payment Summary Statement for the year ending 30 June 2007 needs to be lodged with the ATO on or before 14 August 2007. However, if we prepare your Payment Summary for you and you only employ family members in your business (closely held employees) you may be eligible for an extension.

Where you have provided Fringe Benefits to your employees in excess of $2,000, you need to report the FBT grossed up amount on their PAYG Payment Summary. This is referred to as a `Reportable Fringe Benefit' (RFB) amount and you'll notice that a label has been included on the PAYG Payment Summary for this purpose.

Where an employee has a RFB amount then that amount must be reported in their personal income tax return for the year ended 30 June 2007.

7 last minute ways to minimise your tax

Write off bad debts. To be a bad debt, you need to have brought the income to account as assessable income, and given up all attempts to recover the debt. It needs to be written off your debtors' ledger by 30 June. If you don't maintain a debtors ledger a directors minute confirming the write off is a good idea.

Trading Stock. Write off any stock that is damaged or obsolete. Complete a stock take and remember that stock can be valued at the lower of cost, replacement or net realisable value. You can use different methods for different stock items.

Review your asset register and scrap any obsolete plant. Check to see if obsolete plant and equipment is sitting on your depreciation schedule year in and year out. Rather than a small amount each year, if the plant has become obsolete, scrap it and write it off before 30 June.

Repairs, Consumables (office stationery etc), Trade Gifts or Donations. To claim a deduction for the 2006/07 financial year consider paying for any required repairs, replenishing consumable supplies, trade gifts or donations before 30 June.

Pay June quarter employee super contributions if you want to claim a tax deduction in the current year.

Directors' fees and bonuses. Declare them before June 30 and providing the company is absolutely committed to them, you are entitled to the deduction even if they have not been paid. Again a director's minute is a good idea.

For Simplified Tax System taxpayers:

> Pay for any depreciable assets, including software, costing less than $1,100 (GST incl) before 30 June and claim an immediate tax deduction. If you're not registered for GST, the limit is $1,000.
> For all other assets, STS taxpayers are entitled to '6 months of depreciation' in year 1 regardless of when the item was purchased. It's tax effective to make your purchase prior to 30 June, to ensure the first '6 months of depreciation' commences in the year ending 30 June 2007.
>
> Prepay any subscriptions, insurances, rent or lease payments. An immediate deduction is available for a prepayment if the period to which it relates does NOT exceed 12 months and ends no later than the last day of the year (30 June 2008) after the year (30 June 2007) the payment of the expense was made. There is <u>no dollar limit</u> on the deductions available for prepayments.

For assistance to maximise your opportunities for the incoming financial year (while reducing the negatives) contact us today.

Super myths & realities

How misinformation is leading people to make the wrong super decisions

It's hard to avoid the hype about superannuation at the moment with a myriad of advertising and news articles telling you to invest in superannuation before the 30 June deadline.

What is going to change?

From 1 July, the way superannuation is taxed and much of the complexity of the existing system will be removed.

Concessional contributions - generally contributions from your employer - to your superannuation fund are taxed at 15% on entry to your fund. Non-concessional contributions – generally contributions you make yourself – are not taxed on the way into the fund. From 1 July 2007, superannuation benefits paid as either a lump sum or a pension will be tax free for those over 60 years of age (if paid from a taxed fund).

What is the 30 June opportunity?
From 1 July this year, a limit of $150,000 per financial year applies to undeducted contributions. For those under 65, this limit is averaged across 3 years allowing you to bring forward 3 years worth of contributions ($450,000) into one year if you choose. For example, you might choose to make a $450,000 contribution on 5 July 2008 but then not make another contribution until the 2011/2012 financial year.

Any contributions above the non-concessional threshold are taxed at the top marginal tax rate of 46.5% in your hands (the fund can pay this tax).

Transitional rules allow you to make a contribution of up to $1 million between 10 May 2006 and 30 June 2007 before the restrictive limits apply. So, if there is a benefit to you bulking up your superannuation before the more restrictive limits come into force on 1 July, now is the time to do it. As superannuation is not taxed when you withdraw it under the new rules (assuming you are 60 or more from a taxed fund), superannuation is an attractive investment vehicle. By comparison, if you were to put the money into a different investment vehicle, any income you generate from the investment would be taxed as income at your marginal tax rate. In super, your investment can grow and any gain is potentially tax free.

The transitional undeducted contribution limit is available to all taxpayers eligible to contribute to superannuation at the time of contributing.

I'm thinking about borrowing cash to put into super
Be aware that if you borrow say $1 million to put into super the interest on the loan is not deductible. As a result, you need to look at the cost of borrowing the cash (including application fees, legal fees and any valuation necessary if you are using the equity in your home) against the tax benefits offered by the super changes.   For many, the cost of the loan over time with no ability to claim a tax deduction is not worth it. On top of that, the cash you borrow does not produce any income.

It's important to look at the reasons why you are borrowing the cash. It might be that you intend to sell an investment property but in the current market you do not expect to sell the property prior to 30 June. In these circumstances, it might be worth borrowing the cash to invest in super and then repaying the debt once the property is sold. If the borrowings can be met and the strategy remains viable, then borrowing makes sense.

I have a SMSF, what assets can I transfer into it?
All superannuation funds need to comply with the Superannuation Industry Supervision (SIS) Act. Under the Act, property transferred into a superannuation fund needs to be at arm's length; excluding you from transferring assets such as residential investment property that you own into the fund. The exception to this is Business Real Property defined under Section 66; this generally includes commercial property. Outside of this, it is also possible to transfer shares held on an approved stock exchange into your super fund. Just be aware however that transferring these assets into your superannuation fund may incur stamp duty and potentially trigger Capital Gains Tax.

Where the asset is being transferred from the employer to the employee (for example, if you are a working Director in your own company, the company can make a contribution of property, such as a building, to your SMSF) the company can claim a tax deduction but the transfer is also likely to incur Fringe Benefits Tax.

Interestingly, from 1 July the rules for non-cash contributions will change. *In specie* contributions (for practical purposes this means contributions of business real property or listed shares) made by an employer to a SMSF will no longer attract FBT while the company can still claim a tax deduction.

Legislative changes remove this impediment to ensure that there is no distinction between different types of contributions.

Just be aware that the market value of the building is likely to breach your contribution limit and will be taxed at 31.5% plus the 15% paid on the way into the fund.

You are also able to make *in specie* undeducted contributions to your SMSF.

Don't forget that you also need to keep your SMSF trust deed up to date. If your deed does not accommodate the new super changes, you cannot act on them.

I'm self employed, what do the changes mean for me?
From 1 July, the self employed are eligible to claim a full deduction for the contributions they make to superannuation until age 75. This replaces the old rules where a full tax deduction applied to the first $5,000 contributed and 75% thereafter.

Be aware however that if you are a contractor, you might not be able to access a tax deduction for your superannuation contributions. Under the superannuation guarantee laws, if you are paid for your personal labour or skills, perform the work personally (not delegated), and you are not paid to achieve a result (for example, the contract is based on your time), you are considered to be an employee not a business. As a result, any contributions you make are not deductible as the hirer should be making a superannuation guarantee contribution on your behalf (unless you meet the definition of an 'eligible person') under SIS.

To be considered 'substantially self employed' and therefore eligible to claim a tax deduction for super contributions, less than 10% of your assessable income including reportable fringe benefits will be from employment. It's important to note that this rule applies on a financial year basis. So, if you were employed for any part of the year, you might fail the test.

How soon can I access my super?
Firstly, it is no longer compulsory to cash out your super. Currently, subject to the work test, you are forced to take your super at age 65 if you are not working and age 75 if you are working. From 10 May 2006, once you reach your preservation age or age 65, and assuming you meet the conditions of release, you decide when to take your super; giving you the option of leaving your super in place if you choose to.

The new rules do not change the age that you can access your super. That is, you cannot access your superannuation until you reach your preservation age. If you were born before 1 July 1960, you preservation age is 55 years of age. The preservation age increases for each year until 30 June 1964 when the preservation age is 60 years of age.

As a result, channelling income into superannuation might only be worthwhile, regardless of the tax benefits, if you are within reach of retirement age or the cash you are putting into super is surplus to your requirements. Superannuation is not a liquid investment that you can cash out. Once it's invested it can't be touched until preservation age.

How long can I keep contributing to super?
Your employer can keep making deductible contributions to your fund up until age 75.

From 1 July 2007, once you turn 65, you will be able to make $150,000 of post tax contributions each financial year as long as you still meet the work test (working 40 hours in a continuous 30 day period). Once you reach 75 however, you cannot make any further contributions.

It's important not to be pushed into any quick superannuation decisions and that the decisions you make to capitalise on the June 30 deadline are in line with your investment strategy. On top of that, as superannuation interlinks with the tax law, you need to be aware of both the investment benefits and any potential tax implications. Talk to us today to assist before you act.

Summary
As you can see from the previous discussion, superannuation is a very attractive (and tax effective) investment tool, but there are a few traps, that include:

- You cannot access the funds until you reach preservation age or satisfy a condition of release.
- You cannot borrow against these funds if you need equity for capital expansion.

While the new rules limit the amount you can contribute to super, you can still contribute significant amounts using both pre and post tax, provided you don't leave it till the last minute. Planning ahead will still provide significant savings.

"Change is the law of life. And those who look only to the past or present are certain to miss the future." *John F. Kennedy*