



CLIENT NEWSLETTER

The 2009 financial year is drawing to a close. Below is some information you may like to peruse before the end of the year, regarding:

- Some of the more significant **tax changes** and issues. These include, for example, details about changes to tax rates, reportable fringe benefits, concessions for small business and the investment allowance. *Page 2*
- Some **tax planning** suggestions you may wish to consider before 30 June 2009. *Page 4*

These comments are general in nature as this letter is sent to all clients who are in business. If you would like to discuss any of the issues raised in this newsletter in more detail, please feel free to contact any of our team members.

SIGNIFICANT TAX CHANGES AND ISSUES

New Tax Rates for Individual Taxpayers

Tax Rates – 2008/09

Taxable Income \$	Tax Payable \$
\$0 - \$6,000	Nil
\$6,001 - \$34,000	Nil + 15% of excess over \$6,000
\$34,001 - \$80,000	\$4,200 + 30% of excess over \$34,000
\$80,001 - \$180,000	\$18,000+ 40% of excess over \$80,000
\$180,001 +	\$58,000+ 45% of excess over \$180,000

Tax Rates – 2009/10

Taxable Income \$	Tax Payable \$
\$0 - \$6,000	Nil
\$6,001 - \$35,000	Nil + 15% of excess over \$6,000
\$35,001 - \$80,000	\$4,350 + 30% of excess over \$35,000
\$80,001 - \$180,000	\$17,850+ 38% of excess over \$80,000
\$180,001 +	\$55,850+ 45% of excess over \$180,000

Depending on your individual situation, it may be beneficial to defer income (eg. bonuses, superannuation withdrawals where taxable, redundancy packages, etc) until the 2010 financial year so that they are possibly taxed at a lower rate.

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.

Reportable Fringe Benefits

The FBT rate remains at 46.5%.

Where the value of certain fringe benefits provided to an employee exceeds \$2,000 (including GST) in an FBT year, the employer must record the grossed-up taxable value of those benefits on the employee's PAYG Payment Summary.

This reportable fringe benefits amount needs to be reported on the employee's income tax return. Where we assist with preparing the FBT return for 2009, a schedule of the reportable benefits will be provided to you.

Annual PAYG Withholding Reconciliation

Employers must lodge their Annual PAYG Payment Summary Statement for the 2009 financial year with the Taxation Office by 14 August 2009.

PAYG Payment Summaries (formerly called "group certificates") must be provided to all employees by 14 July 2009 (this includes any staff member who finished employment during the 2008/09 year).

Self Managed Superannuation Funds

For ease of accounting and audit purposes, we suggest that the expenses of a Self Managed Superannuation Fund be paid directly by the super fund. However, the

rules prohibiting the payment of those expenses by an employer entity have been relaxed.

Once again we remind you that money belonging to the fund should not be used for personal or business purposes.

Concessions for Small Businesses – “Small Business Entities”

An entity is classified as a Small Business if it is carrying on a business and has an aggregated turnover less than \$2 million.

Some of the concessions available are:

- 100% deduction for assets costing less than \$1,000
- If value of trading stock has not changed by more than \$5,000, can choose not to perform a stock-take
- A 100% immediate deduction can be claimed for prepayments where payment period is 12 months or less and ends in the next income year

Small business and general business tax break (Investment Allowance)

Additional tax deductions are allowed for the purchase of eligible new tangible depreciating assets.

We encourage you to contact us to determine your eligibility for the additional tax deductions.

Summary information for tax break (investment allowance)

Business Entity	Investment commitment time (inclusive)	Date or first use or installed ready for use (inclusive)	Minimum expenditure threshold	Rate
Small Business (turnover < \$2 million)	13/12/2008 to 31/12/2009	By 31/12/2010	\$1,000	50%
Other business (turnover > \$2 million)	13/12/2008 to 30/06/2009	By 30/06/2010	\$10,000	30%
Other business (turnover > \$2 million)	01/07/2009 to 31/12/2009	By 31/12/2010	\$10,000	10%
Other business (turnover > \$2 million)	13/12/2008 to 30/06/2009	01/07/2010 to 31/12/2010	\$10,000	10%

TAX PLANNING – SUGGESTIONS TO CONSIDER BEFORE 30 JUNE 2009

While taxation is a major factor affecting many decisions, it should be remembered that it is normally only one of several factors to consider. In addition, keep in mind that you may need to consider other taxes such as transfer duty, payroll tax, land tax and GST, and seek advice from licensed financial planners where appropriate.

Depreciable Assets

A review of depreciable assets should be undertaken to ensure that a deduction is claimed for items lost, stolen, destroyed or scrapped during the year.

A deduction can also be claimed for depreciable assets no longer actually used in the business. It is not necessary to physically scrap the assets.

Superannuation concessions / contributions

The annual cap for concessional superannuation contributions for the 2009 year remains at \$50,000 per person (unless you are over 50 years of age, in which case the cap is \$100,000).

Please ensure that you deduct any superannuation contributed on your behalf already in the year, as well as with any life insurance premiums paid where a superannuation fund owns the policy from the relevant cap in calculating your "top-up" superannuation contribution amount.

We note superannuation contributions must be received by the fund before 30 June to be eligible for an income tax deduction.

FYI - the superannuation co-contribution scheme will be reduced to a rate of 100% for contributed amounts for the 2009/10, 2010/11 and 2011/12 years, increasing to 125% for the 2012/13 and 2013/14 years and returning to 150% for the 2014/15 year.

Superannuation Guarantee Charge (SGC)

The superannuation guarantee requires employers to contribute 9% of each eligible employee's earnings base to a complying superannuation fund, and to make the superannuation contributions at least every quarter.

If this is not done by the employer, a 10% per annum non-deductible interest charge and additional administration fees are imposed.

Non-Concessional Superannuation Contributions

From 1 July 2007, a limit of \$150,000 per financial year applies to undeducted contributions.

For those under 65, this limit is averaged across three years allowing you to bring forward three years worth of contributions (\$450,000) into one year. For example, you might have chosen to make a \$450,000 contribution on 5 July 2008, in which case you could not make another concessional tax contribution until the 2012/13 financial year.

Any contributions above this non-concessional threshold are taxed at the top marginal tax rate of 46.5%.

Motor Vehicles

All individuals who claim motor vehicle expenses for income tax purposes should ensure that they record odometer readings as at 30 June. Readings are also required at the date of purchase or disposal of a vehicle.

Work in Progress/Billings

Clients who are not required to pay tax on their work-in-progress at June 30 are generally those in professions where the services cannot be billed to the client and give rise to a recoverable debt because the services agreed to be provided have not been completed (we note that construction industry businesses are not considered to be in this category). We suggest that those clients carefully consider their Work In Progress before billings are done for 30 June.

Interest Expense

Interest is deductible to the extent it is incurred in gaining or producing assessable income or in carrying on a business for that purpose, and is not of a capital, private or domestic nature. Where a loan is taken out for two purposes, one business and one non-business, only a proportion of the interest will be deductible.

Bad Debts

To qualify for a deduction, the book entries to write-off bad debts must actually be made by 30 June, rather than at a later time (such as when the accounts are finalised). 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.

An additional advantage of writing off any bad debts if you are on the accruals method for GST is that you will be able to claim back the GST remitted on the invoice originally raised.

Trading Stock

A physical stock-take must be conducted as at the close of business on 30 June (Not required for Small Business Entities if the value of stock on hand does not fluctuate by more than \$5,000 from year to year).

The method of valuing trading stock on hand can be changed each year, the three basic methods being cost price, market selling value or replacement price. It is normally appropriate to value the stock at cost price, however, the option of valuing certain items of stock at replacement prices to lower the overall value of stock should be considered.

In a manufacturing context, "cost" includes a proportion of manufacturing overheads for finished and partly manufactured goods.

Obsolete trading stock could be either disposed of prior to 30 June and the resulting loss would be claimed in the current year's accounts or an application could be made to the Commissioner for a valuation based on the "fair and reasonable" value of the trading stock.

Note that trading stock does not include stationery and other consumable items.

Timing of Payments and Receipts

Clients whose returns are submitted on a "cash" basis should remember that income received up to 30 June will affect your current tax liability, while income received after the 30 June will affect next year's tax liability. You may wish to delay the receipt of further income until 1 July. Generally, interest income on term deposits can be deferred if the maturity date is after 1 July.

We are aware that when the Taxation Office audits a cash basis profession, the level of banking in June and July are carefully looked at, to ensure there has been no artificial reduction in May/June.

Wages to Children

You should consider paying wages to children who have worked in the family business, as the income will not attract tax in their hands (provided their total income is less than \$11,000 for the 2009 income year) and will be a tax deduction to the business.

Care should be taken to pay normal arms-length rates and to document periods worked. PAYG Payment Summaries are required to be prepared in these circumstances and the child may need to have a tax file number.

Landlords Beware

Please note that rental properties are high on the Tax Office audit radar.

Repairs and replacements:

- are likely to be deductible.
- Repairs relate directly to wear and tear as a result of renting out the property.
- involve a replacement or renewal of a worn out or broken part.

New and improved items / capital expenditure:

- must be depreciated over time.
- If it's newer, bigger and brighter than what was already there, it's likely to be capital expenditure and depreciated.
- Replacement of an entire structure is capital. For example, replacing an entire fence is likely to be capital as opposed to repairing a few broken palings.

Also, be wary of holiday homes that are rented out. If you or family members have used the holiday home throughout the year then you will need to apportion the expenditure on the property between private and investment.

Net Medical Expenditure Rebate

This rebate is allowable only when net medical expenditure exceeds a threshold of \$1,500. The rebate is calculated on the excess of expenditure over \$1,500.

Potential strategies include:

- If the \$1500 threshold will not be reached this year – delay payment of medical expenses to the next financial year
- If the \$1500 threshold will be reached this year – pay outstanding medical expenditure before 30 June

Expenditure for medical rebate purposes includes doctors, dentists, hospital fees, chemist prescriptions etc.

Medical expenditure incurred for cosmetic operations for which a Medicare benefit is not payable, and dental services and treatment which are solely cosmetic are no longer subject to the rebate.

Capital Gains Tax (CGT)

Potential strategies include:

- If assets are likely to return a profit on sale, CGT can be deferred by delaying the sale until after June 30.
- Clients who have realised capital gains should ensure that expected capital losses are incurred prior to June 30.

The relevant date for both acquisition and disposal is the date of contract and not the date money is paid or received.

The capital gains tax discounting provisions (individuals, trusts and superannuation funds) will only be available where the assets are held for greater than 12 months.

We encourage you to contact us should you be considering a significant purchase or sale to ensure that the most tax advantaged position is obtained.

Shareholder/Beneficiary Loans

Legislation effective from 4 December 1997 has the potential for loans and other payments to shareholders and beneficiaries, to be deemed as dividends/distributions to the shareholder/beneficiary.

This area is complex and advice should be sought if your company or trust has advanced loans to shareholders/beneficiaries or associates.

Transition to Retirement & Salary Sacrifice

An individual who is over age 55 can access superannuation as a non-commutable income stream. Assessable income can be salary sacrificed to a level where minimal tax is paid, while at the same time accessing a low tax (tax free if over 60) pension.

Where the assessable income is low enough and at least 10% of it is generated from employee type activities or carrying on a business, a taxpayer can also make an undeducted contribution into super and qualify for the government's co-contribution.

What is "OBM"? Open Book Management

OBM means empowering team members, facilitating emotional ownership of a business by involving team members in the management of the business.

This Newsletter, of necessity, has dealt with matters of a technical nature in general terms only. Clients should contact us for detailed information on any of the items in the Newsletter. No responsibility for loss occasioned to any person acting or refraining from acting in reliance upon any material in this Newsletter can be accepted by any member or employee of the firm.