

YEAR END STRATEGIES

The 2008/2009 Tax Guide for You and Your Business

Surviving the DOWNTURN

Keep As Much As You Can By Effective Tax Planning

As concerns over the global economy continue to grow, it is essential that all individuals and businesses are well prepared for financially-testing times. Sound business and financial planning are always important, but especially so in an economic downturn.

The financial turmoil may have you wondering whether you will have enough money to send your children to university, to pay for your own retirement, or to meet your other financial goals.

Effective tax planning is a year-round, lifelong activity, and though constantly changing tax law can make planning a challenge, making it a priority will pay off with lower taxes. We are committed to working with you to find the tax strategies best suited to your individual circumstances. If you have questions about anything in this newsletter or about your tax-cutting options, please call. And if you have friends or associates who might be interested in end of year tax planning information, feel free to share this newsletter with them.



Caution With Capital Losses

A typical end of year tax planning strategy is to dispose of investment with unrealised capital losses and offset these losses against capital gains. This is not always as simple as it first appears. The ATO has released a warning to investors against the use of 'wash sales'.

Wash sales occur in two forms. Firstly, an investor sells and repurchases the same or substantially the same asset within a short period. Another approach is for an investor to sell the asset to a related party or entity controlled by them, or an associate, in order to realise the loss on the asset.

A common feature of both strategies is that a tax loss has been realised, but the ownership of the underlying asset is effectively unchanged. The ATO has warned that it will apply anti-avoidance provisions to wash sales where the purpose of the transaction was solely to obtain a tax benefit.



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Liability limited by a scheme
approved under Professional
Standards Legislation.

Year End Tips For Property Owners

- ✓ **Borrowing Cost**
Borrowing costs may be written off over the lesser of five years or the term of the loan.
- ✓ **Personal Expenses**
Ensure that any claims or interest on borrowings for investments can be clearly separated from interest on borrowings of a personal nature.
- ✓ **Renovations By Previous Owner**
You may be eligible for a deduction for depreciation on the cost of improvement by a previous owner, provided items are identifiable and itemised in a depreciation schedule.
- ✓ **Capital Gains Tax**
The ATO is closely monitoring undisclosed capital gains including gains from disposing of assets to invest in superannuation. Ensure any capital gains on the sale of property are correctly recorded.
- ✓ **Get The Help Of A Quantity Surveyor**
Having a depreciation schedule prepared by a qualified quantity surveyor may help add a significant tax deduction for depreciation. The cost is also tax deductible and helps substantiate any capital allowance claim you may have.
- ✓ **Be Able To Prove Your Claim**
Make sure you keep receipts to prove your deduction and show why the expense was incurred to derive assessable income.
- ✓ **Self Education Expenses**
You may claim the cost of obtaining educational material such as investment related books, seminars and magazines.
- ✓ **Pre-pay Interest**
If allowed by your lender, this is a strategy to defer the payment of tax. Factors such as anticipated future income, interest rates and cash flow impact should be considered fully beforehand.
- ✓ **Repairs At Time Of Purchase**
Expenses for repairs to property are generally deductible provided that they relate to wear and tear or other damage as a result of earning rental income. The cost of initial repairs at the time of purchase are not deductible.
- ✓ **Short Term Holdings**
If you have renovated a property with the view to selling it at a profit in the short term, you may find yourself taxed as a 'profit making scheme'. This means you will not be able to take advantage of CGT concessions.

One-off Bonuses For Working Australians

The Government will be providing a number of one-off payments to individuals as part of its Nation Building and Jobs Plan.

Tax bonus for working Australians

After taking into account tax offsets and imputation credits, Australian resident taxpayers who paid tax in the financial year ending June 2008 will receive a one-off bonus. The ATO will automatically make the payments with the amount of the bonus to be determined by a taxpayer's assessable income for the 2008 financial year.

Bonuses are paid based on the following:

- \$900 if taxable income was up to \$80,000;
- \$600 if taxable income was between \$80,001 and \$90,000;
- \$250 if taxable income was between \$90,001 and \$100,000; and
- \$0 if taxable income was greater than \$100,000.

General eligibility

In order to be eligible for the cash payments, individuals will need to satisfy specific conditions of the Tax Bonus for Working Australians Bill 2009:

- Individuals must be a resident of Australia for tax purposes;
- Adjusted tax liability for the 2008 income year must be greater than nil; and
- Taxable income for the 2008 year is less than \$100,000.

Key Points To Note

- Taxpayers under the tax-free threshold in 2008 are not eligible.
- Taxpayers are generally required to lodge their 2008 tax return by 30 June 2009 to be eligible.
- Taxpayers who are unable to lodge their return by 30 June 2009 may seek an extension and should do so immediately.
- ATO will automatically make payments from April 2009.



Other Payments

Eligible families or individuals will also receive the following bonuses:

- \$900 Single Income Family Bonus to families provided that, on 3 February 2009, they were eligible for the Family Tax Benefit Part B. Payments will be made by Centrelink after 2008-2009 tax returns have been processed;
- \$950 Training and Learning Bonus to students and non-working individuals returning to study;
- \$950 per child Back to School Bonus to families provided that, on 3 February 2009, they were eligible for the Family Tax Benefit Part A. This bonus is separate and in addition to the 50% Education Tax Refund; and
- \$950 Farmers Hardship Bonus to eligible farmers and rural-dependent small businesses who received income support as a result of exceptional circumstances.

Even though the government bonuses have received a great deal of media attention, there are many people who are unsure if they are eligible. If you have any questions in relation to the government bonuses or your eligibility, please contact our office.

Superannuation Strategies For 2008/09

Contributing to superannuation can often provide significant tax benefits and long term wealth creation benefits. Some of the contribution strategies outlined below can be combined strategically to maximise both tax and retirement planning positions.

Government co-contribution

The Government will contribute 150 per cent of an eligible taxpayer's personal after-tax superannuation contributions during a financial year up to a scaled maximum. The Government's calculated maximum is \$1,500 less 5 per cent of any assessable income plus reportable fringe benefits that a taxpayer has above \$30,342. Co-contributions reduce to \$0 when income reaches \$60,342.

Taxpayers that receive Government cash bonuses may find themselves in a position to make an after-tax contribution and have their super fund receive an additional government payment by qualifying for the co-contribution.

Concessional contributions

A self employed person, investor or individual under 50 years of age may claim a personal deduction for superannuation contributions of up to \$50,000 per annum or up to \$100,000 provided the person has reached the age of 50 by 30 June in the financial year of the contribution.

Individuals aged between 65 and 74 must satisfy a 'work test' before making a contribution. Contributors must work at least 40 hours during a consecutive 30 day period in that financial year.

In addition, businesses may be able to claim a concessional superannuation contribution for a director or employee of either \$50,000 or \$100,000 per annum based on the relevant age of the person on 30 June 2009.

Salary sacrifice

Swapping some salary for increased employer super contributions remains one of the best strategies for many individuals to reduce income tax and maximising future retirement benefits. Not only will



contributors receive an initial reduction in tax, funds contributed will then be indefinitely invested in a concessional tax environment.

Spouse contribution

A spouse contribution is a non-concessional contribution that is paid by one spouse into the superannuation account of the other spouse. A spouse contribution can be made by a contributor of any age provided that the spouse is less than 65 years old, or as old as 70 if the appropriate work tests are satisfied. Contributors may be eligible for a tax offset when their tax return is lodged for the financial year in which the contribution is made. The maximum allowable tax offset is \$540 and contributors may be eligible provided their spouse's income is no more than \$13,800.

Pension drawdown reduction

Due to the global downturn in financial markets, the Government has announced that it will suspend the minimum pension payment requirement for certain income streams for the current financial year.

This means that there will be a 50 per cent reduction in the minimum payment amounts that would normally apply for the 2008-09 financial year. The temporary suspension will help ensure that account based pension holders will not have to sell assets at a loss in order to comply with the minimum payment amount.

Government Support For Small Business

The Government recently expanded the temporary investment allowance announced in December 2008 with the introduction of the Small Business and General Business Tax Break as part of the Nation Building and Jobs Plan.

Small businesses can claim an additional 30% tax deduction for new investments in tangible depreciating assets used in running a business. Assets must cost \$1,000 or more and acquired from 13 December 2008 to 30 June 2009, and be installed and ready for use no later than 30 June 2010.

Eligible assets acquired from 1 July 2009 to 31 December 2009 that cost \$1000 or more, attract an additional 10% deduction where they are installed and ready for use by 31 December 2010.

In order to benefit from this tax break a small business must have a turnover of \$2,000,000 a year or less. Businesses that are not

eligible small businesses are able to receive the same benefits for eligible assets that cost more than \$10,000.

The allowance can be claimed by a business in their income tax return in which the first capital allowance is claimed for the asset.

The investment allowance provides an excellent opportunity for a small business to strategically combine capital expenditure and tax planning.

Issues To Consider

Whilst the business support program is very attractive for a small business, certain questions may need to be clarified before embarking on any expenditure program.

1. Can assets be grouped to reach the threshold?
2. What is 'carrying on' of a business?
3. Can an eligible asset be financed?
4. Can a property investor claim the deduction?
5. What are considered tangible assets?
6. Can I be invoiced for purchases and claim the allowance?
7. Does equipment have to be used immediately?

Tough Times Tip 1



Do A Weekly Cash Flow Forecast

During times when business is slower and unpredictable, it is essential to maintain a weekly cash flow forecast. Even some simple cash flow planning can prevent your business from disaster.



New IR Laws Update

Companies may need to consider the performance of existing staff and decide if disciplinary action should be taken before 1 July 2009. That is when the changes to unfair dismissal laws come into affect. These changes may present a surprise for some businesses which may have become relaxed with their dismissal procedures in recent years.

The new industrial relations system provides for increased union workplace entry rights and Fair Work Australia to hear unfair dismissal claims and quickly settle industrial disputes. Businesses that employ fewer than 100 employees will no longer have an overall exemption to unfair dismissal claims.

Under the new laws, businesses that employ less than 15 full-time equivalent staff will have 12 months to assess the suitability of the employee. On the other hand, businesses with more than 15 employees will be subject to a six month qualifying period. Employees can be dismissed during that time provided they have complied with the fair dismissal code. Not following the relatively simple process may place some employers at risk.

Business owners and managers should begin to review procedures and policies to ensure their organisation and management are familiar with the new legal requirements and that they have valid and documented reasons for termination.

SMSF In-house Assets

The 10 year transitional period for the limit on 'in-house assets' for self-managed superannuation funds (SMSF) ends on 30 June 2009.

SMSF's that have investments, loans or leases that were part of the fund prior to 12 August 1999 may find that these investments are exempt from the in-house asset rules. In addition, the transitional in-house asset rules may apply, excluding certain related party investments made after 11 August 1999 and up until 30 June 2009 from being included in the measurement of the fund's in-house assets.

Transitional rules come to an end on 30 June 2009. It is important that trustees of SMSFs begin to examine their transitional in-house asset arrangements now to ensure that they will not become in-house assets on 1 July 2009. Unless trustees act, they may find themselves in a position where they are in breach of the in-house assets test.











Tough Times Tip 2

Review Your Financials



It is easy to get distracted and suddenly find that margins are squeezed and sales are falling. Your profit and loss statements and balance sheets are not just for year end. Keeping an eye on these reports can mean the difference between success and failure.

Year End Checklist For Business Owners

- 
Staff Bonuses and Commissions
 Bonuses are only deductible when they are incurred and a business is committed to paying them.
- 
Legal Costs
 Identify any legal costs that relate to regular operations and separate them from costs relating to capital items.
- 
Small Business CGT Concessions
 Individuals operating a small business may be eligible for CGT concessions on the sale of business assets. Review your potential concessions this financial year.
- 
Work From Home
 Taxpayers that work from home may be able to claim a percentage of home related expenses. These expenses must be directly related to the earning of taxable income.
- 
Repairs and Maintenance
 Review all spending during the year to determine if all items are deductible or if they are capital by nature and need to be depreciated.
- 
Bad Debts
 Write off bad debts before year end. It must be bad, not merely doubtful and must have been previously included as assessable income.
- 
Fixed Assets
 Review fixed assets useful life and determine if there are any benefits in scrapping or trading in assets in light of the temporary investment allowance.
- 
Rent and Other Arrears
 Businesses who are falling behind in their rent and other expenses that work on an accruals basis may claim the arrears amount as a tax deduction.
- 
Obsolete Stock
 The year end stock-take should involve a review of all stock and a decision made in relation to its value from both a tax and commercial perspective. Obsolete stock may be scrapped or valued below cost subject to specific guidelines.
- 
Data-Matching and Benchmarks
 The ATO uses data matching to cross-check information provided by taxpayers. Benchmarks for specific industries have been developed to help identify taxpayers who report income or expenses different to similar businesses.

We are here to help

Make good use of us! This guide is merely a starting-point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us early for help in taking advantage of tax saving opportunities and tax efficient investments.





Last night the 2009/2010 Federal Budget was handed down. Although we anticipated major changes to our system of taxation and changes to the way business is conducted in Australia, the budget was mainly centered on expenditure across a broad range of areas. There were very few changes to our current tax system and very few changes that will affect business.

The budget is characterized by a \$57.6 billion deficit with the government anticipating the debt worm will turn in to a surplus position by 2015.

From a financial planning or tax perspective there was not too many changes as per the previous year's budgets; the positive point being there was no winding back of the tax cuts announced in last years budget.

Following the budget and seeing a strong deficit emerging that it is evident that working towards being a self funded retiree is even more important for the baby boomers who will be retiring when the aged pension moves to age 67. This is evident with the back flip in respect to qualification for the health care card for self funded retirees.

One of the significant changes for current retirees was in respect to income testing of pensions; the income test is increasing from 40c in the dollar to 50c in the dollar. There is a transition period and an increase in the pension rates which minimizes the impact.

In respect to government benefits the key numbers for family tax benefit are

Part A \$94,316
Part B \$150,000
Additional income per child \$3796

Planning tip: Consider the benefits of agricultural investments, Income protection, and Salary Sacrifice super to qualify for the Family tax benefits.

Please see below for a brief overview of the main announcements.

2009 Federal Budget

Budget Overview

A "temporary collapse in revenue" has prompted a "program of responsible borrowing" and "longer term nation building projects" by the Rudd Labor Government, as announced in the Federal Budget. The government hopes that this will provide the stimulus needed for the economy, with the aim of bringing the budget back to surplus in the medium term.

As a result, no significant tax changes were announced, although measures have been proposed to reduce tax concessions for high income earners in the form of superannuation reform and

changes to the private health insurance offset. Contrary to speculation, the incentive for first home owners has been extended and so has the small business tax break. Reform of the tax system is high on the agenda but tax cuts announced in last year's Budget will be honoured.

Here are the highlights of the tax and superannuation changes announced in the Budget.

Highlights

This Report outlines the tax and superannuation changes announced in the Budget. Here are the highlights.

Superannuation concessions

The annual cap for concessional superannuation contributions has been halved from \$50,000 to \$25,000, and the transitional concessional contributions cap has been reduced to \$50,000 per year from its former annual limit of \$100,000. Whilst there were no changes to the transition to retirement strategy the impact of the reduced concessional contribution needs to be understood. The Non deductible component is expected to be 6 times the concessional amount.

* Planning Tip Take advantage of the higher deductible limits this year.

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.

* Planning Tip Tax plan to qualify for the benefit this financial year.

Individuals and families

From 1 July 2010, the government will introduce three new "Private Health Insurance Tiers" in respect of the Private Health Insurance Rebate

From the 2008/09 year, the Medicare levy low-income thresholds will be increased to \$17,794 for individuals and \$30,025 for individuals in families.

The First Home Owner's Boost will be extended for an extra six months.

From the 2009/10 income year, taxpayers with an adjusted taxable income of over \$250,000 will have excess deductions quarantined to the business activity under the non-commercial losses rules.

From 1 July 2009, the foreign employment income exemption will only be available for income earned by aid or charitable workers, government aid workers, and specified government employees.

* Tax Tip Investigate when bonuses or income should be paid for this financial Year

From 1 July 2009, Family Tax Benefit Part A (FTB-A) payment rates will be indexed by the Consumer Price Index. The higher income thresholds for family payments (FTB-A, FTB-B and Baby Bonus) will be maintained at their current level until July 2012.

A Paid Parental Leave scheme will be available to parents for births and adoptions that occur on or after 1 January 2011.

* Tax tip Ensure that you review your deductible expenses prior to June 30 2009 to give yourself the greatest chance of qualifying for the benefits.

From 20/09/2009 payments to pensioners will be reduced by 50c in the dollar above \$138 for a single and \$240 for a couple, the current pension cut out figure for a single is currently \$47444, from Sept 20th this will be reduced to \$38694. For singles and reduced from \$72423 for couples to \$59228.

The financial planner's role maintaining many clients' pension entitlements with the use of exempt income from super, annuities, insurance bonds etc will be increased.

Small Business

A bonus deduction of 50 per cent will be available to small businesses that acquire an eligible asset between 13 December 2008 and 31 December 2009 and install it ready for use by 31 December 2010

The applications of the income test for the entrepreneurs' tax offset will be deferred for 12 months and commence on 1 July 2009.

The government has made the income recovery subsidy payments for the Victorian bushfires and for the North Queensland floods exempt from income tax.

Certain grants to small businesses and primary producers affected by the Victorian bushfire will be income tax exempt.

Companies and trusts

From 2010/11, the current R&D concession will be replaced by the new R&D tax credit.
From 1 July 2009, the non-commercial loan rules will be extended to payments by way of a licence or right to use real property and chattels.

The government will convert Medibank Private to a "for profit" government-owned business enterprise in early 2009/10.

There has been confirmation that the immediate annuity conditions for life insurance companies did not change when they were transferred to ITAA 1997.

* Planning Tip. With pension rates increasing and qualifying limits increasing annuities are an excellent form of tax advantaged income

Australia's foreign source income attribution regimes will be reformed.

The government will implement the recommendations of the Board of Taxation to improve the taxation treatment of off-market share buy-backs.

The government will change the thin capitalisation regime for approved authorised deposit taking institutions.

Australian managed investment trusts will be able to make an irrevocable election to apply the capital gains tax regime as the primary code for taxing certain disposals of assets, with effect from the 2008/09 income year.

A limited CGT roll-over will be provided for assets transferred between trusts that have the same beneficiaries with the same entitlements and no material discretionary elements (i.e. fixed trusts).

From 1 July 2010, TFN withholding arrangements will apply to closely held trusts.

Tax administration

The government will provide \$595.2m over four years to help businesses remain viable in the face of the global recession, to tackle emerging revenue risks and promote community confidence in the tax system.

Treasury will be provided with additional funding to fund private sector expert input on the practical and commercial issues arising from proposed tax changes.

A discussion paper has been released to progress the Tax Design Review Panel's recommendation that consideration be given to whether or not the Commissioner should be given further power to modify the tax law to give relief to taxpayers.

Over 100 provisions in the tax laws that provide unlimited amendment periods will be repealed.

Other superannuation and retirement measures

The age pension age will be gradually increased to 67 years of age.

Superannuation funds will be required to align their lost superannuation reporting with unclaimed money regulations and to transfer lost superannuation accounts with balances less than \$200 to unclaimed monies.

The minimum drawdown amount for account-based pensions will be halved for the 2009/10 income year.

* Planning Tip: Take advantage of the salary sacrifice limits before they reduce.

The future tax panel's review into retirement incomes has released its report, recommending keeping the superannuation guarantee charge at 9%, increasing the age pension age to 67 years and aligning the age pension with the preservation age.

Australia and New Zealand have agreed in principle to allow movement of superannuation benefits between Australian and New Zealand superannuation funds.

Indirect and other taxes

The administration of GST is to be streamlined, and compliance costs reduced, from 1 July 2010.

The GST law will be amended to clarify the GST treatment of the Carbon Pollution Reduction Scheme.

Countries eligible for the Indirect Tax Concession Scheme have been expanded.

The offshore exploration incentive in the petroleum resource rent tax will be extended by one year.

Carbon Pollution Reduction Scheme

With effect from the introduction of the Carbon Pollution Reduction Scheme all Kyoto units registered in Australia will be subject to the scheme's proposed tax treatment. The government will delay the start date of the Carbon Pollution Reduction Scheme by one year to 1 July 2011.