

ACCOUNTANTS
TAX AGENTS
AUDITORS

NEWSLETTER • JUNE 2010

In this issue ...

• Do You Have to Pay Superannuation for Contractors?	2	• 50% Discount for Interest Income	5
• Paying Superannuation to Contractors	2	• End of Financial Year Tax Tips – 2010 Marginal Tax Rates	5
• When to Pay Superannuation Contributions	2	• Defer Income & Accelerate Deductions	5
• Superannuation Co-Contribution	2	• Increase the Net Medical Expenses Tax Offset Claim Threshold	5
• Questions about Account-Based Pensions and Death	3	• Developments Since 1 July 2009	5
• Offsetting Business Losses Against Other Income	3	• Prepayments	5
• Education Tax Refund	3	• CGT & Capital Losses	6
• Motor Vehicle Cents per Kilometer Rates for 2009/10	3	• Maximising Deductions	6
• Reminder about Superannuation Changes from 1 July 2009	3	• GST & Sale of Vacant Land	6
• Goods Taken for Private Use	4	• Minors Tax-Free Threshold	6
• Superannuation Changes Following the Henry Review	4	• GST: Decreasing Adjustment Note Threshold Increased	6
• Other Henry Review highlights	4	• End of Year Tax Tips	6
• Standard Deduction for Work Related Expenses & The Cost of Managing Tax Affairs	4	• Final Tax Planning Thought	6
• Reminder - Reportable Employer Superannuation Contributions	4	• Staff News	6
• Increasing flexibility of First Home Saver Account	4		

Editorial

Hello and welcome to the June issue of the RJC Evans & Co Newsletter.

It has been a period of Government Reports. Ripoll, Cooper and Henry have all issued their various reports. “Wheels are in motion.”

These reports continue to re-enforce the two basic rules of life:

- “1. Change is inevitable.
2. Everyone resists change. Remember this: When you are through changing, you’re through (source unknown).”

The much anticipated Henry Review into Australia’s tax system has been released. It is Australia’s most comprehensive review of the “tax system.” The review has examined our current system of taxes and made recommendations (138) about its future structure.

The Government’s initial response to the Henry Review covers only a small number of Henry’s recommendations. While the Government have ruled out a number of these, no comment has been made on many others. The Government has indicated that in the coming months it will have more to say on a number of areas considered by the review.

Despite these reports an understanding of tax continues to be crucial in making business and investment decisions. This end of financial year newsletter contains strategies to employ prior to 30th June to enhance your 2010 tax outcomes. Tax should never be the sole reason for a particular strategy. However tax is too important a subject to be ignored, as it shapes the relative rewards from different investment decisions.

Common tax planning techniques that can be deployed are deferring the derivation of assessable income and applying techniques to bring forward deductions. These strategies are outlined in this newsletter. It is important to realise that consideration must also be given to the general and any relevant specific anti-avoidance measures contained in the tax law.

Whether you are self-employed or an employee, superannuation contributions can be used to manage your tax liability. There are a number of articles in this issue which provide information on how superannuation contributions can be used as part of your year end tax planning.

It is clear from the emphasis the Government is placing on these reviews that we all need to keep informed of any changes that have an impact on our businesses or investments. Wheels do come off and momentum is lost unless time and effort is put into keeping up to date.

Read on....

Andrew Evans



RJC Evans & Co
116 Greenhill Road
UNLEY SA 5061
Telephone (08) 8272 2500
Facsimile (08) 8271 1853
Email rjcevans@rjcevans.com.au
Web www.rjcevans.com.au

Do You Have to Pay Superannuation for Contractors?

If you pay your contractors under a contract that is wholly or principally for labour, you have to make superannuation contributions for them, even if they quote an Australian Business Number (ABN). Generally, a contract is principally for labour if more than half of the dollar value of the contract is for the person's labour. These people are considered your employees for Superannuation Guarantee purposes.

The person's labour may include:

- Physical labour
- Mental labour
- Artistic effort

A contract for labour can be made either verbally or in writing.

A contract maybe considered wholly or principally for labour if the individual:

- Is paid wholly or principally for their personal labour and skills.
- Must perform the contract work personally.
- Is paid for hours worked rather than to achieve a result .

If you make a contract with someone other than the person who will actually be providing the labour, there is no employer-employee relationship. A contract is not for the labour of the individual if you make a contract with a company, trust or a partnership. Contact our office should you have any doubt if a contractor is an employee for superannuation purposes.

Paying Superannuation to Contractors

When you pay superannuation for a contractor employee, the minimum superannuation amount should be calculated on the labour component of the contract. The 9% Superannuation Guarantee Contribution should be paid into the contractor's superannuation fund account each quarter.

When to Pay Superannuation Contributions

Superannuation Guarantee Contributions have to be paid for each eligible employee to the correct superannuation fund at least four times a year by the quarterly cut-off dates shown on the following table.

Quarter	Period	Payment Cut-Off Date
Quarter 1	1 July - 30 September	28 October
Quarter 2	1 October - 31 December	28 January
Quarter 3	1 January - 31 March	28 April
Quarter 4	1 April - 30 June	28 July

When a cut-off date for payment falls due on a Saturday, Sunday or public holiday it can be made on the next working day after that cut-off date. Contributions can be paid more regularly than quarterly if you wish.

Superannuation Clearing House - Coming Soon

The Bill to establish an optional free Superannuation Clearing House for employer superannuation contributions has been introduced into Parliament. The Clearing House, to be Medicare Australia, will allow businesses with fewer than 20 employees to meet their employer Superannuation Guarantee obligations once payment is received by the Clearing House. The Clearing House is expected to be available from July 2010. Businesses are expected to be able to register with Medicare Australia from May 2010.

Superannuation Co-Contribution

The Superannuation Co-Contribution is a Government measure to boost superannuation savings. You will be eligible for the co-contribution if all the following applies:

- You make a personal superannuation contribution by 30 June each year into a complying superannuation fund or RSA and don't claim on income tax deduction for all of it.
- The total income (less any business deductions) is lower than the higher income threshold.
- You are less than 71 years old at the end of the financial year you made the payment.
- You lodge your income tax return for the relevant financial year, (2009/10).
- You do not hold an eligible temporary resident visa at any time during the year, unless you are a New Zealand resident or holder of a prescribed visa.

Your superannuation fund needs your Tax File Number before it can accept your personal contribution or a co-contribution from the Australian Taxation Office.

The co-contribution:

- Must be preserved in a superannuation fund or Retirement Savings Account (RSA) - it can only be accessed when other preserved amounts can be accessed.
- Is not included as income in your tax return.
- Will not be subject to tax when paid to the fund or RSA provider.
- Will not be taxed when received as a benefit.

To receive the co-contribution your total income must be lower than the higher income threshold. For the 2010 financial year this is \$61,920. For the income threshold purpose, your total income is the sum of the following:

- Your assessable income.
- Your reportable fringe benefits.
- Your reportable employer superannuation contributions
Note this is a change for the 2009-2010 financial year.

If you earn \$31,920 or less (for the 2009/10 year), the Federal Government pays \$1.00 for every dollar you contribute to your Superannuation Fund in after tax dollars, up to a maximum of \$1,000 a year.

If you earn more than \$31,920, your co-contribution entitlement reduces by 3.33 cents for every dollar you earn over \$31,920, until it cuts out at \$61,920 (for the 2009/10 year).

Questions about Account-Based Pensions and Death

If you nominate your spouse as the beneficiary to receive your superannuation as an account-based pension on your death, what age-based pension limits will be used? Will it be yours? Or will the surviving partner have to use their higher minimum pension limits because they are older or lower if they are younger?

For account-based pensions, it is the current recipient's age that is used to calculate the minimum pension.

This means that during your lifetime, it is your age that is used to calculate the minimum payments. Upon your death if your pension reverts to your spouse, it will be your spouse's age that is used to calculate the minimum which must be taken.

What Is The Tax Status of An Account-Based Pension Inherited By a Spouse a Lot Younger Than Her Partner?

If a pension is inherited by a younger spouse who had a partner who was over aged 60 at the date of death, the future pension payments will be tax free. If both the spouse and the late partner were under 60 at the date of death, the taxable portion of the partner's pension will be taxed at the spouse's tax rate less a pension rebate of 15% of the taxable proportion.

For example if the annual taxable pension was \$50,000, then 15% of this, or \$7,500, is available to reduce the spouse's tax bill.

Once the spouse turns 60 the pension income will become tax-free. What this means is that for a superannuation pension to be tax-free on the death of a partner, either the partner or recipient must be at least 60.

Offsetting Business Losses Against Other Income

Taxpayers who make a net loss in a business activity may, under certain circumstances, claim that loss by offsetting it against their income from other sources. This is restricted by what's known as the "non-commercial losses rule." Key changes were introduced late last year to further tighten the rules to restrict access by individuals with an adjusted taxable income of \$250,000 or more. The changes apply from 1/07/09. Despite this, taxpayers who exceed the income threshold can, in limited circumstances, still access the benefit by requesting that the Commissioner exercise his discretion to do so.

ATO Computer Upgrade

Some clients would be aware that in late January the Australian Taxation Office completed a computer upgrade. This has resulted in refunds taking longer to be issued than would occur in normal practice.

The upgrade has taken longer than originally planned and the ATO has apologised for any delays taxpayers have suffered in receiving their refunds. We have been advised that progress in processing the backlog of returns caused by the system upgrade is being made.

The Tax Office is committed to processing assessments quickly and has announced it will pay interest to taxpayers on any refunds that take longer than 30 days to process.

Education Tax Refund

In completing your 2010 income tax return it is worthwhile remembering that the Education Tax Refund is still available for 2010.

When you lodge your income tax return, you can claim a 50% refund on eligible expenses. That's expenses up to \$780.00 for each primary school child and \$1,558.00 for each high school student. If you spend more than that in one financial year, you can claim the excess the next year.

You are eligible for the Education Tax Refund if you:

- Had a child at primary or secondary school.
- Received Family Tax Benefit (FBT) Part A for that child or received a payment for that child which stopped them receiving FBT Part A, such as Youth Allowance.
- Had eligible education expenses.

You can claim the purchase of laptops, home computers, printers, USB drives, software, textbooks, study guides, and even stationary, as well as repairs, running costs and home internet connections. School fees and uniforms are not included.

Motor Vehicle Cents per Kilometre Rates for 2009-10

Type	Engine Capacity No Rotary Engine	Engine Capacity With Rotary Engine	Per kilometre Cents
Small Car	< 1,600cc	< 800cc	63.0
Medium Car	1,601cc to 2,600cc	801cc to 1,300cc	74.0
Large Car	>2,600cc	>1,300cc	75.0

Keen readers of the newsletter will notice that there has not been any change from the 2008-09 rates.

Reminder about Superannuation Changes from 1 July 2009

For the 2009/10 financial year, and all future years, if you offer your employees the option to salary sacrifice some of their before-tax income as superannuation contributions or if you make additional employer superannuation contributions for your employees, you may need to report the additional amounts to the Australian Taxation Office on your employee's payment summary. These amounts are called Reportable Employer Superannuation Contributions (RESCs).

RESCs are those contributions you make on behalf of an employee where all of the following apply:

- Your employee influences the rate or amount of superannuation you contribute for them.
- The contributions are additional to the compulsory contributions you must make under any of the following:
 - Superannuation Guarantee Law
 - An industrial agreement
 - The trust deed or governing rules of a superannuation fund
 - A Federal, State or Territory Law

Goods Taken for Private Use

The Tax Office has released the amounts which it will accept as estimates of the value of goods taken from trading stock for private use for the 2009/10 income year by taxpayers in certain specified industries.

These industries include:

- Bakery
- Butcher
- Caterer
- Deli
- Fruiter/Greengrocer
- Mixed business (e.g. general store)
- Restaurant/Café
- Takeaway food shop

Tip:

Taxpayers should ensure the value attributed to goods taken from stock for private use is fair and reasonable, and have regard to their own circumstances.

Contact our office for the Tax Office estimates of the value of goods taken from trading for private use in these industries.

Superannuation changes following the Henry Review

- A gradual increase in the Superannuation Guarantee from 9% to 12% by 2019/20.
- An increase in the Superannuation Guarantee age limit from 70 to 75 from 2013/14.
- A new Government Superannuation contribution for low income earners commencing in 2012/13 and paid in 2013/14.
- An increase in the concessional contribution limit for those aged 50 or more with account balances of less than \$500,000 from 2012/13.

Other Henry Review highlights

- The company tax rate will be reduced to 29% from 2013/14 and to 28% from 2014/15.
- The company tax rate for “eligible small business companies” will be reduced to 28% from 2012/13.
- The immediate write off for assets of small businesses will be extended to assets valued at less than \$5,000 from 1 July 2012.

Standard deduction for work-related expenses and the cost of managing tax affairs

- The Government will provide individual taxpayers with a standard deduction of \$500 for work-related expenses and the cost of managing tax affairs.

Those taxpayers with deductible expenses greater than the standard deduction amount will still be able to claim their higher expenses, in lieu of claiming the standard deduction amount.

This measure will take effect from 1 July 2012. From 1 July 2013 the Government will increase the standard deduction to \$1,000.

Reminder - Reportable Employer Superannuation Contributions

In the May 2008 Budget the Government announced additional employer reporting requirements for payment summaries.

Following changes in employer superannuation contribution laws these are now in place, and apply as of 1 July 2009. The change means that for the first time for the year ending 30 June 2010 employers must report each employee's Reportable Employer Superannuation Contributions (RESCs) on employee's payment summaries. These must be issued to employees by **14 July 2010** and reported to the ATO by the **14 August 2010**. This effectively gives employers just over two months to:

- Determine which amounts are reportable
- Adjust payroll systems to reflect these new reporting requirements

A RESC for an individual for an income year is an amount contributed:

- By the employer or associate of the employer, for the individual to a superannuation fund or RSA
- To the extent that the individual has the capacity, or might reasonably be expected to have the capacity, to influence the size of the amount, and/or the way the amount is contributed so that their assessable income is reduced

Please note that the reported contributions will not be taken into account in calculating an employee's tax liability. However this measure has been taken to ensure that salary sacrifice in to superannuation does not affect a range of other obligations and potential benefits.

RESCs will affect employee's entitlements and liabilities in several areas including:

- Liability for HECS or Help debts.
- Liability for Child Maintenance payments.
- Liability for the Medicare Surcharge.
- Eligibility for the Superannuation Co-Contribution.
- Eligibility for a tax deduction for personal superannuation contributions.

Increasing flexibility of First Home Saver Accounts

The Government will allow savings in a First Home Saving (FHS) Account to be paid into an approved mortgage after the end of a minimum qualifying period, rather than requiring it to be paid to a superannuation account.

Currently, a FHS Account holder is required to keep their savings in a FHS Account for 4 financial years before they are able to use those savings to buy a home. If the account holder buys a home prior to the end of that 4 year period, the balance of their FHS Account must be transferred to their Superannuation so that it remains in a concessional tax environment.

The Government will release Draft Amendments for consultation over the coming months. It is anticipated that the changes will apply for houses purchased after Royal Assent of the legislation giving effect to this change.

50% discount for Interest Income

The Government will provide individuals with a 50% tax discount on up to \$1,000 of interest earned by individuals, including interest earned on deposits held in authorised deposit taking institutions, bonds, debentures and annuity products.

The discount will be available for Interest Income earned directly as well as indirectly, such as via a Trust or Managed Investment Scheme.

This measure will take effect from 1 July 2011.

End of Financial Year Tax Tips 2010 Marginal Tax Rates

2010 Marginal Tax Rates	
Income Range (\$)	Tax Rate %
0 - 6,000	0%
6,001 - 35,000	15%
35,001 - 80,000	30%
80,001 - 180,000	38%
180,001 +	45%

Defer Income and Accelerate Deductions

It's worth considering whether it is beneficial and possible to defer income by considering the date of contracts, or when sales are actually made. For example, you may choose to defer a capital gain by holding off on the sale of the asset until the new financial year. Conversely, there may be benefits in crystallising some of your capital losses now to offset against capital gains made during the year.

For small business entities who chose, income is deemed to be derived when it is received. Therefore if a contract for the sale of some cattle is entered into on 29 June but the money is not received until 5 July, the income will not be derived until 5 July and will therefore be in the 2010/2011 tax year.

For expenses, consider bringing forward expenditure on deductible items that you are going to incur in the near future anyway before 30 June. However, you need to be aware of the pre-payment rules. These will be discussed below.

Increase in the net medical expenses tax offset claim threshold

The Government will increase the threshold above which a taxpayer may claim the Net Medical Expenses Tax Offset (NMETO) from \$1,500 to \$2,000. This threshold will now be annually indexed to the Consumer Price Index. The first indexation adjustment to the threshold will take place from 1 July 2011.

The NMETO currently allows taxpayers to receive a tax offset equal to 20% of net un-reimbursed eligible medical expenses above \$1,500.

This new increased threshold will take effect from 1 July 2010.

Developments since 1 July 2009

Taxpayers should know recent tax law changes which include:

- That foreign employment income derived by Australian resident individuals is no longer exempt from income tax, except in specified circumstances.
- The changes to the tax treatment of Employee Share Schemes (ESS), e.g. the \$1,000 discount for upfront taxation of an ESS interest is only available if an individuals adjusted income is less than \$180,000.

Prepayments

With the end of the financial year not too far away it is useful to re-visit the pre-payment rules.

Small Business entities, concession taxpayers and individual non-business taxpayers can claim an immediate deduction for certain pre-paid business expenses, where the payment is for a period that is 12 months or less and ends in the next income year. The expenses available under this provision include interest, leases, rates and insurance.

CGT and Capital Losses

As the end of the financial year approaches, many shareholders search for ways of minimising their tax bill. Here are some strategies to help minimise Capital Gains Tax.

- Defer a disposal to a subsequent income year;
- Defer a disposal to ensure the asset has been held for at least 12 months so as to benefit from the 50% discount;
- Bring forward the disposal to match gains and losses where possible to avoid carrying forward a capital loss;
- Consider the availability of rollover relief for disposals to related parties;
- Seek a liquidator's declaration to crystallise a capital loss on worthless shares in a company in liquidation.

A useful reference in relation to the last point is the website www.delisted.com.au.

Remember with capital gains that the date of the contract is the significant date; not the settlement date.

GST and Sale of Vacant Land

The Federal Court has affirmed that the sale of vacant land is a taxable supply despite a taxpayer receiving zoning permission from a Council classifying the land for residential use. This was because the land lacked the "element of shelter and basic living facilities such as provided by a bedroom and bathroom" to be considered residential premises.

The Commissioner's established view is that vacant land cannot constitute residential premises.

Generally, the sale of residential premises is input taxed to the extent that the premises are used predominately for residential accommodation.

Maximising Deductions

Business Taxpayers

- Debtors should be reviewed prior to 30 June to identify and to write off any bad debts.
- Review the fixed asset register to identify any low-cost and/or low-value assets that may be pooled to access an accelerated rate of depreciation.
- Write off any depreciating assets which are no longer being held for use because a deduction may be available.
- Review trading stock for obsolete stock for which a deduction is available.
- Employee's superannuation contributions should be paid before 30 June to obtain a tax deduction.
- A one-off bonus deduction for new investment in tangible depreciating assets purchased between 13 December 2008 and 31 December 2009 may be available. The bonus deduction is in addition to the depreciation deductions available to taxpayers.
- From 1 July 2009, losses incurred by individuals with an adjusted taxable income of \$250,000 or more from non-commercial business activities will be quarantined even if they satisfy the four commerciality tests.

Non-business taxpayers

- Investors should consider pre-paying interest on margin loans to obtain a deduction.
- Assets costing \$300 or less may qualify for an immediate deduction subject to certain conditions.
- A deduction for personal superannuation contribution is available where the 10% rule is satisfied.

Other matters

- Consider deferring the disposal of shortly-held assets to access the CGT discount, where available.
- Individual taxpayers can consider contributing some or all of a capital gain to their superannuation fund because a deduction may be available for personal superannuation contributions. Both the work test and the 10% rule will need to be satisfied for the superannuation deduction to be applicable.
- Low-income earners (including self-employed persons) should consider making a personal superannuation contribution to qualify for the Government superannuation co-contribution payment.
- The concessional contributions cap for the 2009/10 financial year has been reduced to \$25,000 or \$50,000 if you are over 50 years of age.
- For the 2009/10 income year, people on an account based pension have the option to draw half of the years minimum required pension amount.

Minor's tax-free threshold

For financial year 2009/10, minors who are residents of Australia do not have to lodge a tax return if they earn less than \$3,000. This is because the low income tax off-set of \$1,350 offsets the tax payable on income less than \$3,000.

GST: Decreasing Adjustment Note Threshold Increased

The Government will increase the decreasing adjustment threshold for the purposes of GST. With effect from 1 July 2010, the threshold is \$75.00 or less.

End of year tax tips

- Consider entering into a salary sacrifice arrangement with your employer in the coming year to forgo part of your cash salary into superannuation. This potentially can reduce your income tax liability and increase the level of savings in your superannuation account.
- Consider splitting concessional superannuation contributions with your spouse to receive your combined super balances in a more tax-effective manner.
- If you are expecting to derive a bonus/commission prior to the close of the income year, consider salary sacrificing these amounts to reduce your tax liability.
- Review Farm Management Deposits. There can be no more than \$400,000 in total at any one time in an FMD. If you intend making a Farm Management Deposit allow plenty of time prior to 30 June for this paperwork to be completed by your financial institution.

Final Tax Planning Thought

It's never too early to prepare for tax time. The earlier you start thinking about your tax the better. Why leave it to the 30 June each year? Have a plan to utilise these or other strategies which can be put into place earlier in the financial year.

Staff News

On 2nd April 2010 one of our team members Louise Sullivan celebrated 20 years of continuous employment at RJC Evans & Co. However Louise has been around a lot longer. In her earlier years there were breaks in employment for her two children. Over more than 20 years Louise has performed in various administration roles at RJC Evans & Co. Louise's continuity of service, and friendly disposition is much appreciated by those at RJC Evans & Co.



SPECIALISING IN:

Tax returns, Taxation advice, Capital Gains Tax Planning, Accounting, Budget and Cashflow preparation, Company secretarial services, Company and Trust audits, New Business assessments, Estate Planning, Computer and software selection, Financial management, GST Advising and BAS Preparation.

DISCLAIMER:

Important: We suggest that our clients do not act only on the basis of the material contained in this Report because the items herewith are general comments only, and may be liable to misinterpretation in a particular circumstance. Also, changes in legislation sometime occur quickly. We therefore recommend that our advice be sought before acting in any of these areas. This report is issued as a helpful guide to our clients and is for private information. Therefore, it should be regarded confidentially and not be made available to any person without prior approval.