

R J C — & C o — E V A N S

Accountants • Tax Agents • Auditors

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Editorial

Welcome to the September newsletter.

Many years ago Bob Dylan told us, "The times they are a changing."

In this current era all businesses are continually challenged to review and consider changing business practices. The ability to successfully manage business change is a key ingredient to the success of businesses.

Change is happening at a greater pace than ever before. A significant contributor to this change is technology. Computer technology is an area where change is constant. If you don't know how to use technology effectively then you are at a distinct disadvantage. Regardless of the person's age it is a prerequisite now to use technology, even if you don't like it!

To this end we have recently upgraded our computer systems. This has taken a few weekends and also involved a recent closure of the office for a full day. We apologise for any inconvenience that this may have caused while we were, "off the air." The system is up and running and it is now, "all systems go!"

Often it is only with the onset of the end of a financial year that some people find that they have not adequately planned to capitalise on their financial position for that year. There is a mad rush to implement superannuation and tax planning strategies.

Why not initiate a change in this practice and plan your end of financial year outcome earlier? With a start of the new financial year it is a good time to put these plans in place. Consider:

- Implementing a salary sacrifice strategy. Remember superannuation contribution limits apply.
- Reviewing your personal insurances. Premiums are tax deductible on income protection insurance.
- A Transition to Retirement Strategy.
- Review co-contribution eligibility criteria. If eligible contribute on a regular basis rather than trying to find the money as a lump sum at year end.
- Review your eligibility for a tax offset for superannuation contributions made on behalf of your non-working or low income earning spouse.

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

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

Deductions and Refinancing Home Loans

The Tax Office has also issued a Taxpayer Alert in which it alerts taxpayers about a sham arrangement being promoted as “mortgage management plans.”

The arrangements involve homeowners refinancing their home loans and establishing investment loans to fund the purchase of shares in bogus companies. Homeowners then claim tax deductions for interest incurred on the loans.

The Tax Office says the arrangements may give rise to various taxation issues, including whether:

- The general anti-avoidance provisions may apply to the arrangements; and
- Any interest incurred on the investment loans is deductible.

Exceptional Circumstances Assistance for Primary Producers

The Government will provide \$394.9 million over 2 years to continue support for primary producers in regions that have been declared eligible for Exceptional Circumstances Assistance.

Exceptional Circumstances Assistance provides interest rate subsidies and income support to assist viable farm businesses and farm families who have been adversely affected by prolonged drought. Eligible recipients are also provided with a health care concession card and access to Youth Allowance for their children.

The off-farm income exemption of \$20,000 per annum and the off-farm assets exemption of \$750,000 will remain.

Key Tax Changes from 1 July 2010

From 1 July 2010:

- The Low Income Tax Offset (LITO) will increase from \$1,350 to \$1,500. This will allow taxpayers to earn up to \$16,000 and not pay income tax.
- The 30% rate threshold will increase from \$35,000 to \$37,000.
- The 38% marginal tax rate will decrease to 37%.
- The amount of income a senior Australian eligible for the Senior Australian Tax Offset (SATO) can earn before they pay income tax or the Medicare Levy will increase from \$29,867 to \$30,685 for singles, and from \$25,680 to \$26,680 for each member of a couple.

Superannuation Contributions for the Over 50s

From the 1 July 2012, the \$50,000 transitional concessional contributions cap will be extended permanently for taxpayers aged 50 or over with total superannuation balances of less than \$500,000. This provides an opportunity for anyone over 50 to contribute up to \$50,000 into superannuation until the superannuation balance reaches \$500,000. This is a significant increase from the previous cut off date for \$50,000 concessional contribution cap expiry date of the 30 June 2012

Superannuation Contribution Limits

Age	Annual Concessional Contribution Cap
Under 50	\$25,000
50 Years or over*	\$50,000

* This transitional concessional contribution cap applies until the 30 June 2012, and then it reverts to \$25,000, unless you have less than \$500,000 in superannuation when it is possible to continue to contribute \$50,000 per annum.

Salary Sacrifice

Salary Sacrificing refers to the situation where some of your pre-tax salary is deposited into your superannuation account by your employer. Effectively you are foregoing a portion of your salary. The tax advantage relates to using pre-tax rather than post-tax funds.

Utilising this strategy offers the following advantages:

- You can reduce your taxable income and therefore pay less tax.
- You are enhancing your retirement outcomes by making further provision now.

In order to salary sacrifice, you need to have an agreement in place with your employer before you earn the “sacrificed” salary. Care needs to be taken not to exceed any of the concessional contribution caps. This cap includes superannuation guarantee amount paid by your employer as well as the amounts sacrificed.

How Times Have Changed

Paul Anson commenced working at RJC Evans & Co over 40 years ago. I recently sat down with him to list some of the matters which require attention in completing a job for a client which didn't exist years ago. The following list is not exhaustive but highlights the changing environment in which business operates.

- GST reconciliation and GST issues
- Consider whether a family trust election is required
- Grain loans
- Consider whether it is an advantage for a business to be operating under the small business entity provisions
- Centrelink considerations
- Capital gains tax
- Fringe benefits tax
- WorkCover
- Personal services income
- Year end adjusting journals for electronic files
- Use of computers
- Payroll Tax
- Division 7A – Review debit loans

Pension Drawdown Relief Extended

The Government has announced it will extend the 50% reduction to the minimum pension payment required for the 2010/11 financial year.

This measure will provide welcome relief for self-funded retirees who want to minimise pension drawdowns.

Reminder - Employer Reporting for Employee Share Schemes

Since 1 July 2009, there have been new rules for the taxation of Employee Share Schemes (ESS).

An ESS is a scheme under which shares, stapled securities or rights to acquire them (ESS interests) are provided to an employee or their associate in relation to the employee's employment.

The new rules require that for each income year employers must:

- Provide a statement to the ATO and their employees, detailing the ESS interests they have issued, or those for which a taxing point has occurred in that income year.
- Withhold tax on the discount given on ESS interests provided to an employee, where that employee has not quoted their TFN or ABN to their employer, by the end of the income year in which tax is payable by the employee.

Div 7A Loans and Trust Entitlements

The Tax Office has released a Taxation Ruling TR 2010/3, which sets out the Commissioner's views on when a private company with an unpaid present entitlement (UPE) from an associated trust is considered to have made a loan to the trust for the purposes of the deemed dividend provisions.

Broadly, the ruling provides that the company will be considered to have made a loan under the provisions to the trust if the UPE has been satisfied and the company agrees to loan the amount to the trust, or if the company does not call for payment of a subsisting UPE and thereby agrees that it can be used for trust purposes.

Henry Tax Recommendations to Watch Out For

The long-awaited Henry Tax report has been publicly released with the Government's initial response. There are a number of recommendations made to the Government which, if implemented, will impact many taxpayers. Below is a snapshot of some of the main reforms put forward to the Government:

- Reducing the company tax rate to 28%.
- Allowing small businesses to immediately write-off assets valued at under \$5,000 (\$1,000 under the present law).
- Increasing the superannuation guarantee rate from 9% to 12%, phasing in from 1 July 2013.
- Providing a contribution of up to \$500 for workers with incomes up to \$37,000 from 1 July 2012.

The late Dr John Thompson

The late Dr John Thompson will be remembered as a pioneer of rural medicine and the first "Flying Doctor" in South Australia. The highly regarded practitioner died on the 29 March 2010 at the Quorn hospital aged 95.

Dr Thompson remained in practice until his retirement in 1990. He gave 50 years of service to the community. Dr Thompson was also awarded a Medal of the Order of Australia (OAM) for services to medicine and the community. Our sympathy is extended to his family for their loss.

John Lynch the chief executive officer for the Royal Flying Doctors Service central operations noted that Dr Thompson's deeds, "of the past are our footsteps for today and beyond."

Small Business Superannuation Clearing House (SBSCH)

The SBSCH is an initiative from the Government to help small businesses meet their superannuation guarantee obligations. The SBSCH is a free service that allows employers to pay the superannuation guarantee to all employees with only one transaction.

To be considered a small business you must have less than 20 employees.

The Small Business Superannuation Clearing House (the Clearing House) is administered by Medicare Australia and lets employers pay their super contributions to a single location in one simple electronic transaction.

The Clearing House will be available to eligible small businesses from 1 July 2010.

After registering your employer / employees details, the SBSCH will be able to disburse the funds to the correct superfund accounts. The disbursed funds will match the instructions you have given in the employers details.

To deposit funds into your SBSCH account you must use BPay.

The details in the SBSCH need to be updated when any of your details or your employees details change. If you do not update your employee's information then the SBSCH may make payments to incorrect superfunds or to employees who are no longer entitled to a payment.

If you wish to enquire further about the SBSCH then please do not hesitate to contact our office or alternatively you can access information at the website below:

<http://www.medicareaustralia.gov.au/super/index.jsp>

Trust Income and Bamford: Tax Office View

The Tax Office has released a Decision Impact Statement outlining the Commissioners' view on the High Court's decision on a case which dealt with key elements of the tax law by which the liability of trustees and beneficiaries is determined.

The case is broadly known as the Bamford decision and concerned the assessment of the (tax) net income of the Bamford Trust. In particular, the case examined the meaning of the phrases 'income of the trust estate' and 'that share'.

This long-awaited Decision Impact Statement sets out a number of general propositions, as understood by the Tax Office, which have emerged from the High Court's decision. It covers the Tax Office's administrative treatment of tax returns for the 2009/10 and earlier income years. It also identifies a number of issues in relation to tax laws dealing with trust income which the Tax Office considers to remain unresolved. We anticipate further developments in this area.

New Personal Income Tax Thresholds Apply from 1 July 2010

Please note that new personal income tax rates apply from 1 July 2010 when withholding tax from employees. Copies of the tables are available from the ATO website at www.ato.gov.au/taxtables. If you would prefer a paper copy please contact our office.

If you are using a computer payroll system or an outside service provider to manage your payroll then you should ensure that the tax rates used have been updated.

Various Rates and Thresholds for 2010/2011

The Tax Office has released the following rates and thresholds for the 2010/2011 income year.

- car depreciation limit and luxury car tax threshold - \$57,466;
- fuel efficient car limit - \$75,375;
- CGT improvement threshold - \$126,619.

Luxury Car Tax Threshold for 2010/2011 Financial Year

The Luxury Car Tax for the 2010/2011 financial year is \$57,466. A 33% Luxury Car Tax (LCT) applies to most cars over this threshold.

If you buy a car priced over \$57,466, the maximum GST credit that you can claim is \$5,224 if you are claiming 100% business or up to your business use percentage.

Change to Fuel Tax Credit Rate for Heavy Road Vehicles

From 1 July 2010 the fuel tax credit rate for heavy vehicles that use fuel such as diesel or petrol and travel on public roads is **15.543** per litre.

The ATO considers a heavy vehicle to have a gross vehicle mass (GVM) greater than 4.5 tonne. Diesel vehicles acquired before 1 July 2006 can equal 4.5 GVM tonne.

To find out all the fuel tax credit rates or fuel schemes information visit www.ato.gov.au/fuelschemes or contact our office.
First

First Home Saver Account (FHSA)

In 2008 the Government introduced the FHSA to Australian residents aged between 18 and 65. The account is similar to other term deposits, although withdrawals need to be used for purchasing their first new home. If you already own your own home then you may be ineligible to open an account. If you own a residential property that you have never lived in then you will still be eligible.

The FHSA is available at banks and other financial institutions. The account will earn interest at a rate set by the bank/institution. After lodging your individual tax return the Government will contribute 17% on contributions up to \$5,000 in a financial year. This is an additional \$850 in interest earned on top of the interest already earned by the bank/institution. All contributions to the account are from post-tax income.

The Government also introduced a concessional tax rate of 15% on all interest earned in the account. The concessional tax rate benefits those taxpayers who have a marginal tax rate of 30% or higher.

The maximum threshold for contributions is \$75,000. When your account reaches the upper threshold no further contributions can be made. Any interest earned will still be deposited into the account.

To withdraw the balance of the FHSA a taxpayer needs to use the funds in purchasing their first home. They need to live in the property for at least 6 months in the 12 months following the purchase. You also need to have deposited \$1,000 in four separate financial years (does not need to be consecutive) to be able to withdraw the funds. If the funds are withdrawn and not used in the purchase of a property then a penalty will result.

If you inherit or win a property and live in the property or do not wish to purchase a property, then the balance of the account is transferred into your superannuation fund. The funds cannot be withdrawn for any other purpose.

For further information contact our office or visit the FHSA website at www.homesaver.treasury.gov.au

Staff News

The 2010 year has seen a number of staff reach significant employment milestones.

Kristy Laslett has continued this in September by celebrating 10 years with RJC Evans & Co. Kristy, now a Team Manager, commenced at the same time as the Goods & Services Tax (GST), a period of significant change for clients.

We thank Kristy for her professionalism and commitment to her own professional development over the years in order to provide up to date and relevant information for clients. Congratulations on this achievement.

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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.