RJC EVANS & Co

News

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Learn from the past. Think of the future.

It all started like any other day of the week. I woke up and went into the bathroom and looked into the mirror, ready to shave.

Although I have been doing this for years, it was the first time that I thought of mirrors and finances. What was I thinking? It certainly wasn't the reference from Snow White, "Mirror mirror on the wall, who is the fairest of them all?"

Sometimes in life and business, as difficult as it might be, we do need to have a, "long, hard look in the mirror".

In this situation it is the rear-vision mirror. We are reviewing our performance and reflecting on how what we have done to date, can be improved. Without reflection, we run the risk of continuing to go blindly on our way, potentially creating more unintended consequences and failing to achieve our original goals.

Looking back, we learn from our past performance to help us plan for the challenges that lie ahead.

This is important to put in place as part of an overall process, but I have also learnt that:

- I cannot change the past, but I can learn from it
- "Life can only be understood backwards – but it must be lived forwards" (Soren Kierkegaard)
- You can't sow in a straight line looking backwards
- "The whole purpose of education is to turn mirrors into windows" (Sydney J. Harris)
- "We look into mirrors, but we only see the effects of our times on us – not our effect on others" (Pearl Bailey)

Recently, a note from a long-standing client, brought this last point home to me:

"Andrew, thank you for all your assistance over the years. I am privileged to have known and counted amongst my friends, three generations of the Evans family over a period of 70 years".

These are the good old days and they have just started. Now off to work. Carpe Diem!

Andrew Evans

Superannuation Guarantee Amnesty

Does this new Bill apply to you?

On 24 May 2018, the Government introduced a Bill to Parliament proposing a once off twelve-month Amnesty for historical underpayment of Superannuation Guarantees.

Assuming that this Bill is passed by parliament, the Amnesty will provide a once-off opportunity for employers to self-correct past Superannuation Guarantees (SG) Non-Compliance without penalty.

Employers who voluntarily disclose previously undeclared SG shortfalls during the Amnesty and before the commencement of an audit of their SG will:

- Not be liable for the administration component and penalties that may otherwise apply to late SG payments; and
- Be able to claim a deduction for catch-up payments made in the twelve-month period

Employers will still be required to pay all employee entitlements. This includes the unpaid SG amounts owed to employees and the nominal interest, as well as any associated general interest charge.

The Amnesty applies to previously undeclared SG shortfalls for any period from 1 July 1992, up to 31 March 2018.

The Amnesty does not apply to the period starting on 1 April 2018 or subsequent periods.

Accessing the Amnesty is a simple process. If you are able to pay the full SG shortfall amount directly to your employees' super fund (or funds), then complete a payment form and submit it to the ATO electronically through the business portal.

If you are unable to pay the full SG shortfall amount directly to your employees' super fund (or funds), then you will need to complete and lodge a payment form. The ATO will then contact you to arrange a payment plan.

Retirement Phase Pensions

Retirement Phase Pensions (including full Account-Based Pensions) now operate under the $1.6 million Transfer Balance Cap rules.

From 1 July 2017, the most superannuation an individual can transfer to a Retirement Phase Pension, is $1.6 million.

If an individual commuted their Retirement Phase Pension as at 30 June 2017, to reduce the balance to $1.6 million, there is no issue if the balance of the Pension Account subsequently exceeds $1.6 million due to investment earnings and valuations. Further commutations are unnecessary as market fluctuations and investment earnings do not increase or decrease an individual's Transfer Balance Cap.

Likewise, if an individual's Pension Account reduces below $1.6 million, due to Pension payments and investment valuations, it is not possible to top up the account to $1.6 million.

Self-Managed Superannuation Fund (SMSF) members are also subject to new Transfer Balance account reporting requirements. Where the SMSF has a member (including any Accumulation Account member) with a total superannuation balance of $1 million or more, they will need to report any Transfer Balance Cap events by the 28th of the month following the end of the quarter in which the event occurred.

Other SMSFs which have no members with a total superannuation balance of $1 million or more, must report these events annually by the due date of the respective SMSF's annual return.

Personal Deductible Superannuation Contributions – Tips and Traps

"This makes a superannuation tax deduction potentially available to anyone."

For personal superannuation contributions made on or after 1 July 2017, you no longer have to earn less than 10% of your income from employment (or not have been employed during the financial year) to be eligible to claim a tax deduction.

This makes a superannuation tax deduction potentially available to anyone who earns 10% or more of their income from employment for the first time.

It provides an opportunity to claim a tax deduction for anyone who:

- Is under the age of 75;
- Is eligible to contribute to superannuation;
- Has enough room left in their concessional contributions cap;
- Has enough assessable income to be able to use the tax deduction;
- Makes a personal contribution to a complying superannuation fund;
- Submit a valid Notice of Intent to Claim a Deduction for Personal Super Contributions form, to the Superannuation Trustee within required timeframes; and
- Receive acknowledgement from the Trustee that the valid Notice of Intent has been received, before claiming a tax deduction in your income tax return

Claiming a tax deduction for personal superannuation contributions may allow a taxpayer to reduce their taxable income as well as provide a tax effective way to:

- Fund insurance within superannuation;
- Contribute to superannuation where salary sacrifice is not available;
- Save for a first home deposit; and
- Make in-specie contributions of direct shares into a self-managed superannuation fund

Ineligible Contributions

A deduction cannot be claimed for a personal contribution that is:

- A downsizer contribution;
- A CGT exempt amount contributed to superannuation as required under the small business retirement exemption;
- Made to a Commonwealth Public Sector Superannuation Scheme in which the taxpayer has a defined benefit interest;
- Made to an untaxed fund; and
- Made by a minor (less than 18 years), unless the minor's derived income is from employment or carrying on a business

Active vs Passive Investing

This debate has been going on for at least two decades

Picking a winner is not a simple answer, it depends on your goals, length of term and type of investments.

You may have been at a business lunch or barbecue where there was some discussion about the relative benefits of active investing versus passive investing.

This debate has been going on for at least two decades and in some ways resembles the debate about which is the better car: Ford or Holden, with both sides holding very firm views.

Understanding the Difference

Active investing, as the name suggests, requires a hands-on approach. This manner of investing usually involves a portfolio manager overseeing a team of analysts, conducting in-depth qualitative and quantitative analyses regarding which stocks to buy or sell, with the specific aim to achieve a better return on investment than the average return on the stock market. For example, when a share trades below its intrinsic value, or when particular corporate activity dictates, the portfolio manager will react to take full advantage of potential short-term price fluctuations. Active funds normally hold 50 - 100 stocks, which are individually selected by the portfolio manager.

Passive investing is usually characterised by investing in an index fund that follows one of the major indices, like the S&P/ASX 200 or the All Ords. These index funds constantly track every movement of the indices it follows. It could be argued that the investor holds a very small amount of a larger number of shares. Index funds may hold hundreds or thousands of stocks, depending on the size of the index they track. This strategy requires a buy-and-hold mentality.

Which Strategy is Better?

In-depth studies spanning decades illustrate that active managers find it difficult to beat passive managers (index funds) over the long-term. However, there are certain sectors that require more research and a deeper understanding to identify investment opportunities. An example is the Fidelity Futures Leaders Fund, which primarily invests in small to mid-sized companies. In-depth research is undertaken by their analysts, which involves bottom-up stock-picking. This fund has consistently outperformed the index (S&P/ASX Small Ord) over a 6-month, 1-year and 3-year period. Another example where active funds perform better is when a more flexible mandate is required, specifically due to a focus on achieving certain goals, for instance investing in shares that pay a high dividend, or having an unconstrained mandate to focus on various investment instruments to achieve better returns.

Both strategies have advantages and disadvantages, which need to be considered:

Active Investing

Advantages:

1. Flexibility – a decision can be made on which stocks to buy or not with a specific objective in mind.
2. Hedging – various techniques can be applied to hedge bets, for example, short sales or put options, in order to limit the downward movement.
3. Tax management – shares that are losing money can be sold to offset the taxes on the winners.

Disadvantages

1. Expensive –fees are higher because of active buying and selling costs, as well as the cost of researching underlying stocks.
2. Active risk – Active managers have a mandate to buy any investment they think will perform well, but it has a direct, negative impact on returns when they make the wrong decision.

Passive Investing

Advantages:

1. Low fees – there is no stock-picking, no research is required, and the passive funds simply follow the index.
2. Transparency – information about which stocks are in an index fund is freely available.
3. Tax efficiency – no active buying or selling of stocks is required, which means less significant realised gains and fewer tax implications.

Disadvantages

1. Limited – passive investments are limited to a specific index and investors are locked in to those holdings irrespective of what happens in the market.
2. Unequal weighting – generally the holdings in an index fund are weighted according to their market capitalisation, which results in an unequal holding of the underlying stocks. For example, although the S&P/ASX 200 is an index which represents the 200 largest shares in Australia by market capitalisation, the 4 major banks represent by far the largest weighting of the index.
3. Average return – In theory, passive funds follow the market and therefore will never beat the market as opposed to active funds that can benefit from identifying inconsistencies in the market.

Conclusion

Picking a winner is not a simple answer. We believe the best result is typically achieved by blending active and passive investing. Passive investments (index funds) are selected for the portion of the portfolio where a broader investment spread is required for a longer term, for example investing in large cap international shares. Active investments are preferred where a specific goal needs to be achieved, for example where income is important for retirees and shares with dividend growth need to be selected.

If you are uncertain about whether your portfolio has the correct mix of active and passive investments, you are more than welcome to contact Gerrit Lombard, our financial planner, to discuss it in more detail.

General Tax

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Repair or Improvement?

In this context, it is critical to distinguish between:

- Ongoing repairs, which are deductible;
- Initial repairs, which are **not** deductible; and
- Improvements, which are **not** deductible

If the question falls into the category of initial repairs or improvements, the amount in question is **not** deductible, but it would be considered as expenditure that may qualify for deprecation purposes, capital work purposes, or as part of the cost base for CGT purposes.

An amount of expenditure will constitute initial repairs if the asset was in disrepair at the time of acquisition, before letting out the property, and the owner carried out the repairs. This form of expenditure is capital in nature and **not** tax deductible.

To distinguish the difference between repairs and improvements, is more difficult. Repairs generally involve a replacement or renewal of worn out or broken parts, or relate directly to 'wear and tear' or other damage that has occurred as a direct result of renting out a property.

Common repairs would include things like replacing broken windows, repairing electrical appliances or machinery, and replacing walls, guttering and fences.

It might also extend to work done to prevent deteriorating, such as painting a rental property, or cleaning an item which is otherwise in good working order.

By contrast, improvements go further, in that they fundamentally change, in some meaningful way, rather than maintaining and merely repairing something which previously existed.

Extended landscaping or adding a deck to a property would ordinarily constitute an improvement. To put it another way, if what has occurred is more than merely restoring what previously existed to its original condition, it is likely to be treated as an improvement and therefore not deductible.

In trying to evaluate whether an amount of expenditure is an improvement, consideration needs to be given to the following issues:

- Does expenditure give rise to a material increase in the efficacy in the function of the property?
- Does the expenditure give rise to a material increase in the value of the asset?

If the answer to either of these is yes, it is likely that there is capital improvement, which is not deductible.

Clearly, this scenario can cause much confusion and compliance can be problematic. Careful consideration needs to be given to the questions raised above so that all factors have been reviewed before a final decision is made.

Latest Tax Updates

- From 1 July 2018, the upper limit for the **32.5%** tax bracket will increase from $87,000 to $90,000;
- From 1 July 2018, for the low and middle income tax brackets, a Non-Refundable Tax Offset of up to **$530** will be introduced; and
- Australian resident individuals with income not exceeding **$125,333** will be entitled to the abovementioned offset in part or full, depending on their income level.

Fringe Benefits Tax (FBT)

Car Threshold

The car limit for capital allowance purposes for the 2018/19 financial year is $57,581.

Luxury Car Tax (LCT) Threshold

The LCT for the 2018/19 financial year is $66,331.

Fuel Efficient Cars Threshold

The Fuel-Efficient Car limit for the 2018/19 financial year is $75,526. This is unchanged from the 2017/18 year.

Purchasing a New Home? Watch out for the GST.

"These new rules apply on or after 1 July 2018"

From 1 July 2018, buyers of new residential premises (or potential residential land) are required to withhold an amount from the contract price for GST and remit this directly to Australian Taxation Office (ATO) on or before settlement.

The sorts of property transactions involved are those where a taxable supply is made (for example by sale, or supplied by way of a long-term lease) of new residential premises or potential residential land where the contract is entered into, on or after 1 July 2018.

Generally, the amounts to be withheld will be 1/11th of the unadjusted GST-inclusive contract price. However, this amount can be 7% if the margin scheme applies.

Why the Change?

The incumbent GST law requires a buyer to pay GST to the seller (or developer) as part of the purchase price on property transactions, where there is a taxable supply. The seller is subsequently required to remit that GST amount to the ATO with their next Business Activity Statement (BAS).

The problem that the change is attempting to fix has to do with tax evasion and an erosion of GST revenue from some property transactions. It was found that some developers/sellers, having collected GST on the sale of property, were not forwarding this GST revenue on to the ATO – either dissolving a business and in some cases creating new ones (a 'phoenix' entity) or through insolvency.

The new rules apply on or after 1 July 2018. They do not apply to contracts entered into before then, as long as the transaction settles before 1 July 2020.

This new law does not mean that an additional payment, on top of the contract price, is required. The GST withholding amount is taken from the purchase contract price.

Some Exclusions

Some property transactions are excluded from the new measure, such as:

- Commercial residential premises (for example hotels and motels);
- New residential premises created by 'substantial renovations';
- Potential residential land included in a property subdivision plan that contains a building that is currently in use for a commercial purpose (for example a factory or shop being operated in an area where local zoning permits mixed use); and
- Taxable supplies of potential residential land between GST registered businesses where the purchaser requires the property for a creditable purpose.

Other types of property transactions are not included in the new measure as the ATO considers these to not be new residential premises or potential residential land. For example:

- Sales of commercial premises (for example office units, factories and retail shops where land is owned for commercial use only);
- Industrial land or farm land where zoning prevents residential development; and
- Hospitals

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Age Care Services and Fees

The overall objective is to allow people to live independently in their own homes.

Types of Services:

The Australian Government offers two types of care:

1. Help at Home Care
2. Residential Age Care

Depending on the level of Home Care provided, there are two further distinctions:

1. Commonwealth Home Support Programme
2. Home Care Packages

The overall objective of the above support is to allow people to live independently in their own homes.

For those requiring additional support, there are Permanent Residential Age Care facilitates.

Fees:

The Commonwealth Home Support Programme can be subsidised by the Australian Government where eligible. Any fees should be discussed with your service provider.

The difference in fees between Home Care Packages and Permanent Residential Age Care are as follows:

Home care Packages	Permanent Residential Age Care
Recipient may be required to pay:	**Recipient may be required to pay:**
• Basic Daily fee • Income-tested care fee (applies if your income is over a certain threshold)	• Basic Daily fee • Means-tested care fee (calculated based on the assessment of income & assets) • Extra and additional service fees • Accommodation payments**

***Accommodation payments depend on whether or not any initial payments/deposit are made. There are two types of payment amounts (1) Residential Account Deposit (RAD) and (2) Daily Accommodation Payments (DAP). RAD is the initial amount owing, whereas DAP is the interest payment on the balance of the unpaid RAD.*

The level of support and care obtained will depend on the type of service and your personal circumstances.

IN BRIEF

Do you need to register a Business Name with ASIC?

From November 2018, trading names will cease to exist and disappear from the Australian Business Register when your ABN is searched.

Therefore, if you are currently trading under a trading name that is different from your entity name, you will need to register a business name.

If you would like to register a business name, please contact our office and we will arrange this for you.

If you are not sure whether you are trading under a "trading name" or a "business name", please give us a call and we will look into this for you.

Strava Fun Facts

Strava is a GPS-based software used for tracking cycling, swimming and running activity.

Users can record and upload their physical activities and the software provides statistics such as distance, heart rate, pace along with comparisons with other users' activities.

Below are some interesting facts from an article recently read.

World Records Recorded for 2017

- Kate Driskell ran the length of the UK (1,722km) in 37 days
- Sandra Vi ran 5,000km across the US in 54 days, 16 hours, 24 minutes
- Killin Jornet summitted Everest twice in a week, without oxygen, in 17 hours and 26 hours.

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