RJC EVANS & Co.

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WORKING TO MAXIMISE YOUR WEALTH OVER 90 YEARS SINCE 1921 RJC EVANS & CO

Newsletter

October 2013

In this Issue

The timing of preparation

The rain is pounding down on the roof today. It is too wet for outdoor activities. This is a… "stay inside" type of Sunday. Living in South Australia we are fortunate to experience four distinct seasons, winter definitely proving to be one of them!

I am sitting at my desk reading and thinking about what to write for this Editorial.

I am not thinking… "I wish I had cleaned the gutters." I did these a few months ago so the water would stay outside. This thought reminds me of the importance of being prepared.

Preparation and the timing of preparation is so critical for our farming clients, who are heavily dependant on the weather for any chance of producing income. Machinery and equipment need to be fully operational for the role they are to play in producing income, paddocks must be prepared for crops to be planted into and the list goes on.

Seneca, a Roman statesman and philosopher, stated that, "luck is what happens when preparation meets opportunity."

The famous inventor Alexander Graham Bell noted that, *"before anything else, preparation is the key to success." As far back as Confucius' time he noted that, "success depends upon previous preparation, and without such preparation there is sure to be failure."*

If you are visiting RJC Evans & Co over the next few weeks you will see plenty of activity at the rear of the building. Trenches have been dug and holes have been drilled into walls in order to lay our own dedicated fibre optic cable. This will enable us to obtain adequate internet speed, which is necessary in order to access information. In short, we are preparing ourselves for the next wave of computer technology which will be internet and "Cloud" based. It is an important step in continuing to provide exceptional accounting services in an era where internet speed and the use of technology are vital. We will keep you updated as the developments continue.

It looks like that rain on the roof has helped me with the Editorial after all!

Oh, by the way........ It wasn't raining when Noah built the Ark.

Andrew Evans

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SENIORS

Age Pension exceptions

Under new measures retirees will be able to downsize their homes and receive a means test exemption of up to $200,000 over a 10 year period.

From 1 July 2014, senior Australian homeowners who have owned their family home for at least 25 years and who decide to downsize will have the option to invest surplus funds (up to $200,000.00) into a special account. The funds which are invested in the account and earn interest, will be exempt from the age pension means test for up to 10 years or until a withdrawal is effected.

SENIORS

SAPTO

Beginning in the 2013 financial year, the new Seniors and Pensioners Tax Offset (SAPTO), will replace the Senior Australians Tax Offset (SATO) and the Pensioner Tax Offset. If you were previously eligible for either SATO or the Pensioner Tax Offset, you may now be eligible for SAPTO. The rebate amount and thresholds for 2012/13 are shown in the table (below right).

The SAPTO reduces by 12.5 cents for each $1 of taxable income above the shade-out taxable income threshold. If you are married or de facto, the eligibility is based on the combined income of you and your spouse.

A person, who would have been entitled to both the Senior Australians Tax Offset and the Pensioner Offset, will now only receive the offset that provides the greatest benefit.

The maximum rebate that can be granted is $2,230. To be eligible for this amount, you need to be a single senior Australian, i.e. over the age of 65. If you meet this requirement, you can earn $32,279 from other sources such as rent, dividends or interest without having to pay tax as you will also be eligible for the low income earner offset.

TAX

Legislative updates

Self Education

The introduction of a $2,000 cap on work-related expense deductions scheduled to begin 1 July 2014 has been put off for 12 months until 1 July 2015.

FBT Statutory Formula

The FBT Statutory Formula will be abolished, effective 1 July 2014. All new car fringe benefit arrangements entered into on or after 16th of July 2013, must adopt the operating cost method as the method to calculate the taxable value of a car benefit from 1 April 2014.

Existing contracts that are not varied will continue to have access to the statutory formula for the duration of the arrangement. However, where employee and employers materially vary contracts governing the provision of car benefits after 16 July 2013, it will also fall within the new measures.

Car Limit

The car limit for 2013/14 is $57,466. This is unchanged from 2012/13.

Luxury Car Tax Threshold

The luxury car tax threshold for the 2013-14 financial year has been indexed to $60,316. This is up from $59,133 for the 2012/13 year. This threshold of $60,316 is used to determine if luxury car tax is payable on a vehicle purchase.

Family status	Maximum offset	Shade-out taxable income	Offset cuts out at
Single	$2,230	$32,279	$50,119
Couple (each)	$1,602	$28,974	$41,790
Couple separated due to illness	$2,040	$31,279	$47,599

EDUCATION

Changes to HECS-HELP

The HELP repayment thresholds and rates for 2012-13 are:

HELP repayment income (HRI*)	Repayment rate
Below $49,096	Nil
$49,096-$54,688	4% of HRI
$54,689-$60,279	4.5% of HRI
$60,280-$63,448	5% of HRI
$63,449-$68,202	5.5% of HRI
$68,203-$73,864	6% of HRI
$73,865-$77,751	6.5% of HRI
$77,752-$85,564	7% of HRI
$85,565-$91,177	7.5% of HRI
$91,178 and above	8% of HRI

The HELP repayment thresholds and rates for 2013-14 are:

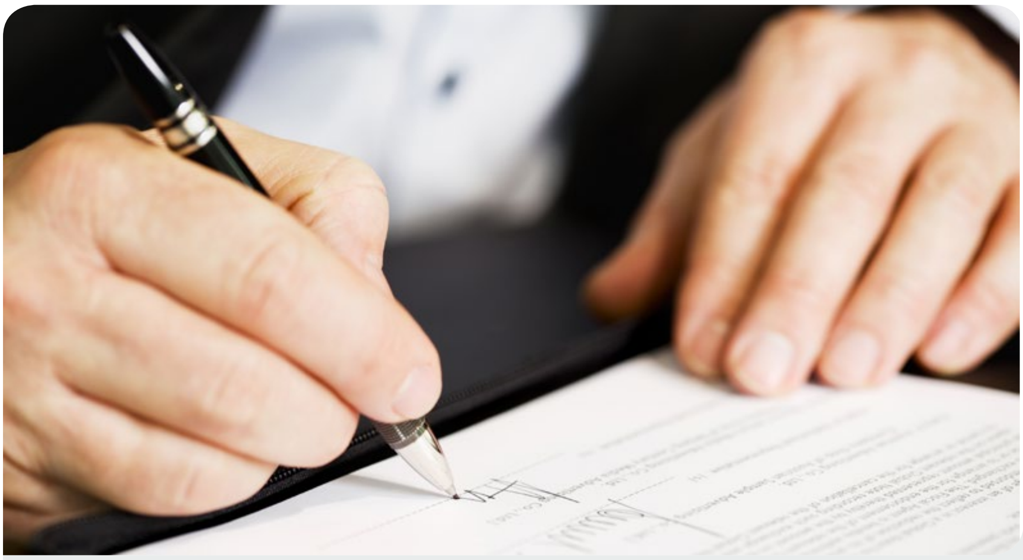
HELP repayment income (HRI*)	Repayment rate
Below $51,309	Nil
$51,309 - $57,153	4.0%
$57,154 - $62,997	4.5%
$62,998 - $66,308	5.0%
$66,309 - $71,277	5.5%
$71,278 - $77,194	6.0%
$77,195 - $81,256	6.5%
$81,257 - $89,421	7.0%
$89,422 - $95,287	7.5%
$95,288 and above	8.0%

**HRI = Taxable income plus any total net investment loss (which includes net rental losses), total reportable fringe benefits amounts, reportable super contributions and exempt foreign employment income.*

Abolishment of discounts

The Government will remove the 10% discount for students paying upfront and the 5% discount for voluntary payments of $500 or more made to the ATO under the Higher Education Loan Program (HELP).

The changes will come into effect from 1 January 2014.



ESTATE PLANNING

Testamentary Trusts

The following article is based on general legal advice. As this advice is of a general nature, legal advice should be sought for your specific circumstances prior to proceeding.

What is a Testamentary Trust?

A Testamentary Trust is a trust established within and by your Will. It does not come into effect until after your death. At this point in time, specified deceased estate property is transferred to a trustee who holds the assets on trust for the benefit of the beneficiary/beneficiaries.

Testamentary trusts can be created using specific assets, a designated fraction of your estate, or your entire estate. Testamentary Trusts are becoming more popular because they are tax effective and allow people to "control" assets and income after their death.

There are a range of Testamentary Trusts that can be used. There is no, "one size fits all" Testamentary Trust. Different people need different types of Testamentary Trusts depending on their life circumstances.

Benefits of Testamentary Trusts

- Testamentary Trusts can restrict access to the assets and income of the estate by beneficiaries. This is especially useful where the beneficiaries are children or are unable to manage their own financial affairs.
- If a beneficiary is at risk of being sued, made bankrupt or divorced a Testamentary Trust can protect the Estate from the beneficiary's creditors and partners. Accordingly, using a Testamentary Trust means that your assets are likely to remain in your family's hands.
- From a tax viewpoint, a Testamentary Trust allows you to split income earned by assets between numerous beneficiaries. This allows for greater flexibility in providing income to minors (children under 18 years) at normal marginal tax rates applying to adults (such as applying income towards their education, maintenance or advancement). Note that minors are generally taxed at the top marginal rate on their passive taxable income.

Taxation

SUPERANNUATION

Contributions tax up 15%

From 1 July 2012, individuals earning above $300,000 must pay an additional 15% tax on concessional contributions. That is, contributions tax has effectively doubled from 15% to 30% for concessional contributions (up to the cap of $25,000 or, for older taxpayers 2013/14, $35,000) made on behalf of individuals above the $300,000 income threshold.

The definition of income that defines if an individual is liable for the increased contributions tax is wider than simple earnings. For the purposes of the increased superannuation contributions tax, the definition of "income" includes:

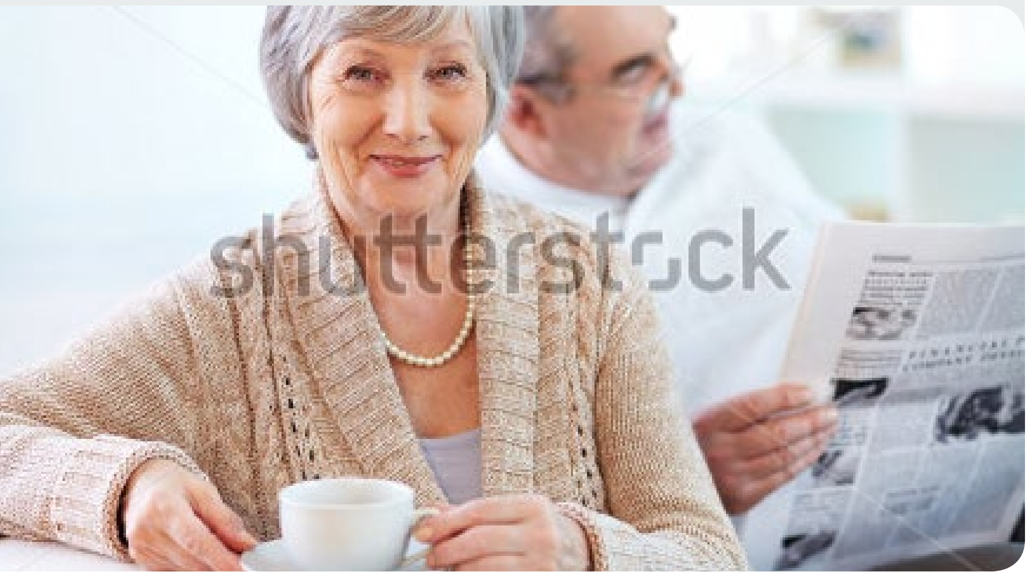
- Taxable income and any adjusted fringe benefits
- Concessional superannuation contributions (i.e. salary sacrifice)
- Target foreign income and net investment losses
- Tax free "Government" benefits and pensions
- Total income is reduced by any child support payable.

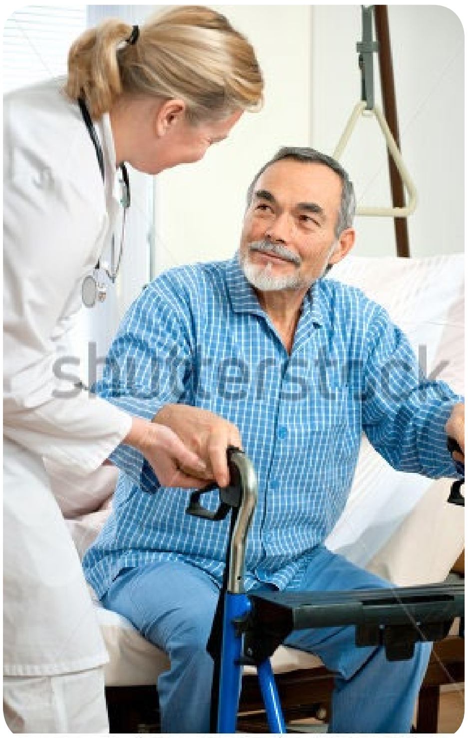
Where any concessional contributions are being made to superannuation (for example salary sacrificed contributions) and the value of the extra contributions causes the individual to exceed the $300,000 threshold, the Government has stated that the increased contributions tax would only apply to the amount over $300,000. For example if a person earning $290,000 has concessional contributions of $25,000, then the higher tax will be applied to the $15,000 of the overall contribution amount.

A major issue of this scheme is the impact it will have on individuals who do not normally earn income in excess of $300,000. Capital gains are included in the definition of taxable income, meaning persons that sell assets that subsequently result in the taxpayer's total income going over the high income threshold, may be subjected to the higher rate of tax on their superannuation contributions in the year that they sell the underlying asset.

For those who are still invested in "Defined Benefit Schemes" the increased contributions tax applied is only based on the "notional employer contributions."

However, despite this extra 15% tax, it should be noted that there is still an effective tax concession of 15% (i.e. the top marginal rate less 30%) on concessional contributions up to the cap of $25,000 (or $35,000).





HEALTH

Net medical expenses tax offset

The Net Medical Expenses Tax Offset (NMETO) is being phased out. Transitional arrangements apply to those who currently claim the offset.

From 1 July 2013, taxpayers who claimed NMETO in the 2012/13 income year will continue to be eligible for the offset in the 2013/2014 income year, if they have eligible out-of pocket medical expenses above the relevant thresholds. Similarly, those who claim the NMETO 2013/14 will continue to be eligible for the offset in the 2014/15 income year.

NMETO will continue to be available for taxpayers for out-of pocket medical expenses relating to disability aids, attendant care or aged care expenses to 1 July 2019, when Disability Care Australia becomes fully operational and aged care reforms have been in place for several years.

INVESTING

"Dividend washing" loophole closed

The Government is seeking to close what it perceives to be a loophole allowing sophisticated investors to engage in what it calls "dividend washing." The Government says "dividend washing" is a process that allows sophisticated investors to effectively trade franking credits, and can result in some shareholders receiving two sets of franking credits for the same parcel of shares.

The Government has issued a discussion paper to facilitate consultation and has proposed law changes to take effect from 1 July 2013. The changes would aim to prevent shareholders from receiving two sets of franking credits for the same effective parcel of shares through dividend washing, and to ensure that there would be negligible impacts on legitimate market activities.

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PERSONAL TAX

Electronic Funds Transfer (EFT) for income tax returns

This tax time (from 1 July 2013) the Australian Taxation Office will be paying refunds electronically. While this has occurred in the past the option to receive a cheque is no longer available.

Consequently when we lodge your individual Income Tax Return this year you will need to provide financial institution details to go in the Income Tax Return where a refund is anticipated.

SUPERANNUATION

Superannuation update

Removal of Upper Age Limit for SG Contributions

The upper age limit for employee SG eligibility (age 70) has been removed.

From 1 July 2013, employers will need to start making SG contributions to eligible employees that are aged 70 years and older.

Increase to SG Contributions

Under current legislation, SG rates will be increased annually over the next six years. From 1 July 2013, the new SG rate is 9.25%.

Small Business Superannuation Clearing House

If you are a small business employer with 19 or fewer employees, you can register to use this free service, available around the clock, by visiting **humanservices.gov.au/smallbusinessuper** or phoning the clearing house on **1300 660 048**.

MySuper

As an employer, you have a nominated super fund, sometimes called a 'default fund,' where you make super guarantee payments for employees who have not selected a preferred fund.

From 1 of July 2013, super funds can start offering MySuper products: a new, simple and cost-effective super product that will replace existing default products.

From 1 January 2014, if your employee does not choose a fund, you will need to make super contributions to a fund that offers a MySuper product. If your existing default fund offers a MySuper product, you will not need to change current arrangements.

Data and E-Commerce Standard

From 1 January 2014, there is a new data and e-commerce standard for sending superannuation contributions which will be mandatory for employers with 20 or more employees. This data and e-commerce standard will allow employers to send superannuation contributions and data on behalf of their employees to all funds in one standard electronic format, instead of sending information to separate funds in multiple formats. The benefits of a standard format reduce processing time and cost.

Consideration needs to be given to what your business needs to do in order to prepare for this change, as there may be a need to update software or systems. Over the next few months, employers with over 20 or more employees will need to consider these changes to be ready on time.

SUPERANNUATION

Excess superannuation concessional contributions

The rules in relation to the taxation of excess concessional contributions have been amended with effect from 1 July 2013. The Government says the new rules will be "fairer for individuals who exceed their annual concessional cap."

Under the new rules, excess concessional contributions are automatically included in an individual's accessible income and subject to an interest charge to account for the deferral of tax. Broadly, the new rules ensure that individual's who make excess concessional contributions are taxed on the contributions at their marginal tax rates, rather than at the effective 46.5% tax rate, which previously applied for all taxpayers before the changes were introduced.

SUPERANNUATION

How much can you invest in superannuation before 30 June 2014?

Here are the superannuation contribution caps which apply for the 2013/14 financial year.

Contributions which qualify for a tax deduction

These are known as a concessional contributions and the limit is aged based, as shown below. Generally you can only qualify for a tax deduction if you are self-employed or you are employed and make the contribution through salary sacrifice. The limit includes any Super Guarantee your employer pays on your behalf.

Age	Tax deductible limit (2013/14)
Up to 59	$25,000
60+	$35,000

Contributions which do not qualify for a tax deduction

You could also invest up to $150,000 p.a. in super as a non-concessional contribution (i.e. you do not receive a tax deduction on this contribution). If you are under age 65, you can bring up to two years of non-concessional contributions forward. This means you could contribute $450,000 in one financial year, but you would not be allowed to make non-concessional contributions in the following two financial years.

The Government co-contribution

Currently, eligible workers earning up to $48,516 who make personal contributions to super can take advantage of the Government co-contribution of up to $500.

Spouse contributions

If your partner's income is less than $13,800, you could qualify for a tax offset of up to $540 on the first $3,000 you contribute to superannuation for them, from your after-tax income. This tax offset decreases as your partner's income increases above $13,800.

Low income superannuation contribution

The Government will refund the tax you pay on eligible contributions up to $500 – if your income is less than $37,000 p.a.

Some SMSF numbers

1,100

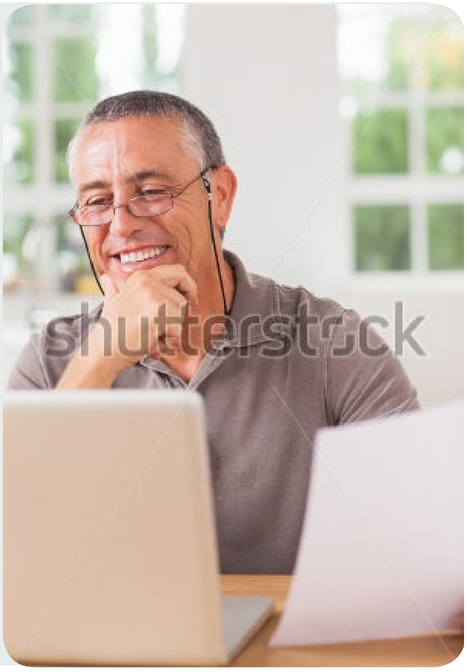
The number of SMSF the Australian Taxation Office expects to audit for income tax compliance in 2013-14.

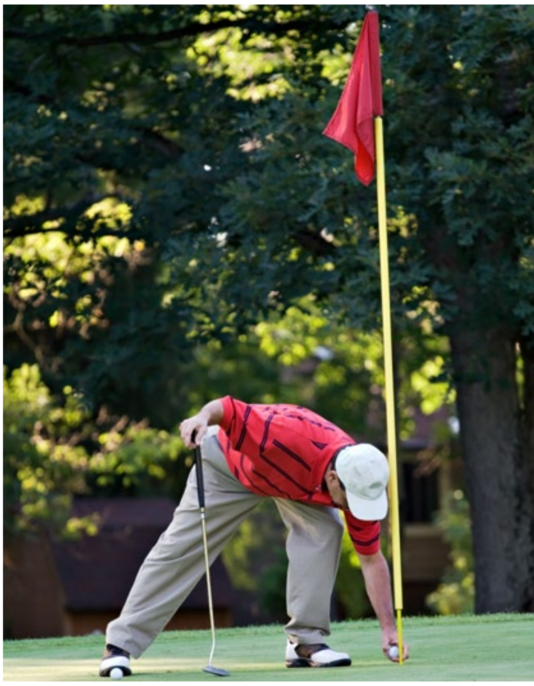
(Source: Australian Taxation Office)

15,000

The number of Self Managed Superannuation Funds the Australian Taxation Office expects to audit for regulatory compliance in 2013-14.

(Source: Australian Taxation Office)





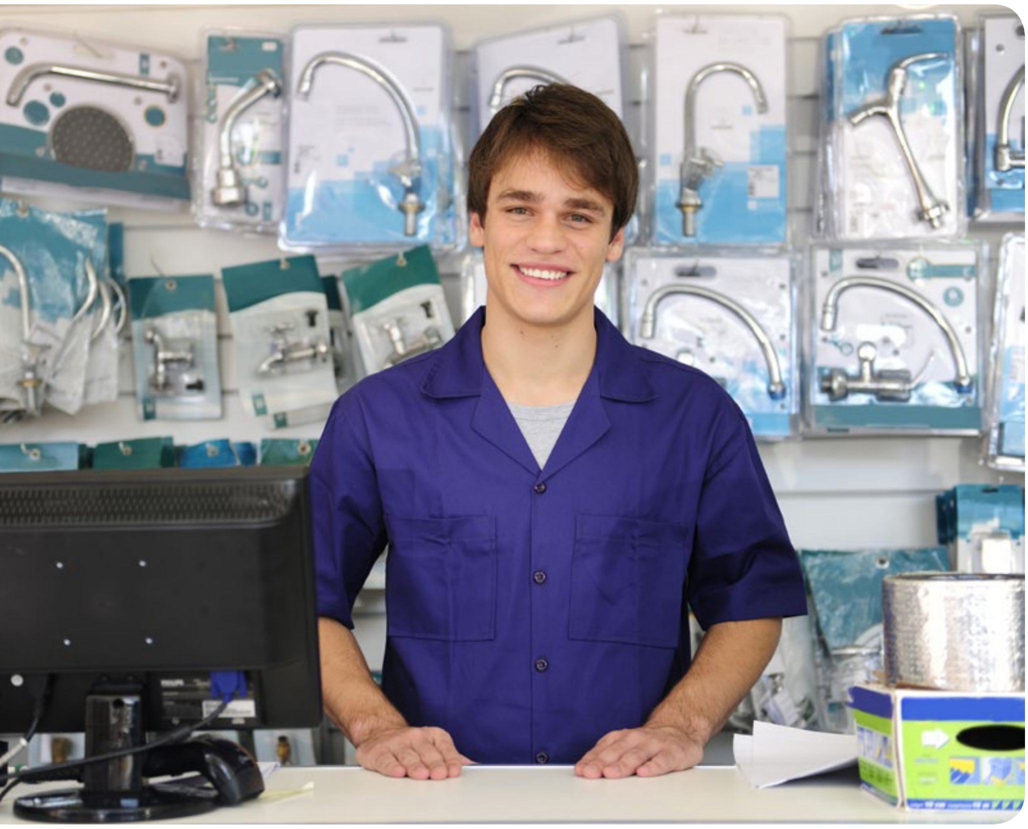
SUPERANNUATION

Superannuation income stream following death of a member

The Government has made tax law changes to provide tax certainty for superannuation trustees and deceased estates in situations where a person has died while in receipt of a superannuation income stream.

Investment earnings derived by complying superannuation funds from assets supporting current pensions, are generally exempt from tax. However, a draft tax ruling issued by the ATO in 2011 caused some uncertainty over the eligibility of this tax exemption, in situations following the death of a member to whom a pension was being paid.

In response to the uncertainty, last year the Government announced that it would amend the law from 1 July 2012, to allow the tax exemption to continue following the death of the pension recipient, until the deceased member's benefits have been paid out of the fund (subject to the benefits being paid as soon as practicable).



CAPITAL GAINS

Disposal date critical for CGT small business concessions

In a recent decision, the Administrative Appeals Tribunal (AAT) decided that a taxpayer's interest in a business was disposed of when a "heads of agreement" was executed and not when the formal contract of sale was executed.

An agent had testified that it was a long-standing practice in the industry for an intending purchaser and vendor to enter into an "in-confidence" period of exclusivity during which the intending purchaser would use professional advisers to carry out due diligence.

Despite evidence suggesting that the industry did not regard the heads of agreement as a binding contract, the AAT was of the view that the parties to the heads of agreement had agreed to the sale and purchase of the business in question. As a result, it was found that it was the date of the heads of the agreement that was the applicable date of the transaction for CGT purposes.

Consequently, the taxpayer was not entitled to access the CGT small business concessions because he did not satisfy the relevant test for the concessions just before the date.

APPRENTICESHIPS

Tax and super for apprentices and trainees

Apprentices and trainees should be treated as employees for tax and superannuation purposes. This means meeting the required Pay As You Go (PAYG) withholding, superannuation and fringe benefit tax obligations.

An apprentice or trainee cannot be engaged as a contractor, as they are not running their own business. They are in training and are required to work under the direction, control and supervision of their employer to earn their qualification, certificate or diploma. They are covered under an award and receive specific pay and conditions.

Apprentices and trainees are not entitled to an ABN for the work they do as an employee, as part of their apprenticeship or traineeship.

If an apprentice or trainee already has an ABN, it does not make them a contractor in relation to their apprenticeship or traineeship.

important dates?