

News Flash

July 2011

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Message from David Shaw

I cannot believe that tax time is already upon us!

I am looking forward to catching up with as many clients as I can this year and would love to be able to assist you with the "big picture" strategy going forward.

Clients have already started making appointments for tax interviews but please note that I will be away from the office from 9th July to 20th July.

We have employed new staff members this year to assist us with the processing of your returns and I look forward to introducing them to you.

Best regards,

2011 Income Tax Checklists

We recently emailed all clients the 2011 Income Tax, Rental Property and SMSF Checklists. If you did not receive copies please contact our office.

We will be booking appointments for tax return interviews from 11th July. If you would like to make a face-to-face appointment please telephone our Sydney office on (02) 8525 4600 or email pariss.armstrong@wscgroup.com.au We suggest that even if you are coming in for a personal meeting that you complete the checklists and bring with you to your appointment.

If you do not require a face-to-face interview please complete the appropriate checklists and send back to us with your documents. We will again be offering a 5% discount for those who send their information in by Friday 22nd July, 2011. A tele-conference (or SKYPE) call can be arranged once your return has been completed to run through any extra advice if necessary.

ASIC Fee changes effective 1 July 2011

	2010 \$	From 1 July 2011 \$
Change of Company Name	340.00	351.00
First Late Payment Fee	67.00	69.00
Second Late Payment Fee	278.00	287.00
Application for Voluntary Deregistration of a Company	34.00	35.00
Annual Review Fee (Proprietary Companies)	218.00	226.50
Annual Review Fee (Special Purpose Companies)	41.00	42.00

Budget 2011

Following are the main tax measures announced in May's Federal Budget.

Reforms to the car fringe benefit rules

The Statutory Formula method for determining the taxable value of car fringe benefits will be reformed by replacing the current four statutory rates with a single flat rate of 20% that applies regardless of the distance travelled. This reform will only apply to new vehicle contracts entered into after 7:30pm on 10 May 2011, and will be phased-in over four years.

People who use their vehicle for a significant amount of work-related travel can still use the Operating Cost (log book) method to ensure their car fringe benefit excludes any business use.

Editor: Please contact our office if you are considering salary sacrificing a car fringe benefit, as potentially everyone involved in these types of arrangements will be impacted by this announcement.

Dependent Spouse Tax Offset – Phase-out

From 1 July 2011, taxpayers with a dependent spouse born on or after 1 July 1971 and with no dependent child/student will no longer be eligible for the Dependent Spouse Tax Offset. This reform is aimed at progressively removing the tax concession for taxpayers with a non-working spouse and no children.

The change will not affect taxpayers with an invalid or permanently disabled spouse, taxpayers whose dependent spouse is a carer, or taxpayers who are eligible for the zone, overseas forces or overseas civilian tax offsets.

Disallowing deductions against government assistance payments

With effect from 1 July 2011, the tax law will be amended to prevent deductions being claimed against all government assistance payments.

Individuals who receive a student Youth Allowance can still claim a deduction for expenses incurred in gaining their payment for the 2010/11 income year.

Changes to the Low Income Tax Offset ('LITO')

From 1 July 2011, the following changes will apply with regards to the LITO:

- **Bring forward of LITO** – The amount of the LITO that is delivered to low and middle income earners through their regular pay during the year will be increased to 70% (previously 50%) of their total entitlements. The remaining 30% of their LITO benefit will still be paid as a lump sum on assessment of income tax returns.

- **Removing eligibility of minors for LITO on unearned income** – The tax law will be amended to remove the ability of minors (children under 18 years) to access LITO to reduce tax payable on their unearned income (such as dividends, interest and rent), to discourage income splitting between adults and children.

Income earned by minors from work will still be eligible for the full benefit of the LITO. Also, unearned income of minors who are orphans or disabled, as well as compensation payments and inheritances received by minors will not be affected by this measure.

CGT and superannuation funds

Complying superannuation funds will no longer be able to treat certain specified assets (mainly shares, units in a trust, and land) as trading stock when buying and selling them, meaning that gains or losses on such assets will be subject to CGT (and losses on them can only be offset against capital gains rather than other income).

Superannuation – Refund of excess concessional contributions

The tax law will be amended to provide eligible individuals with the option to have excess concessional contributions taken out of their superannuation fund and assessed as income at their marginal rate of tax, rather than incurring excess contributions tax.

The measure will apply where an individual has made excess concessional contributions of up to \$10,000 (not indexed) in a particular year, and will only be available for the first year, commencing from 2011/12, in which a breach occurs.

Small business reforms

The Government has announced the following tax reforms for small businesses:

- **Entrepreneurs' Tax Offset ('ETO') abolished** – The ETO will be abolished with effect from the 2012/13 income year.
- **Immediate \$5,000 initial deduction for motor vehicles** – Small businesses will be allowed to claim up to \$5,000 as an immediate deduction for motor vehicles acquired from the 2012/13 income year. The remaining cost of the vehicle value will be added to the General Small Business pool and depreciated under the existing simplified depreciation rules for small business entities.

ATO focus on employer super obligations

The ATO is reminding employers that meeting their super obligations is an important part of running their business.

If an employer misses the super guarantee quarterly deadline, they must submit a *Superannuation guarantee charge (SGC) statement* to the ATO.

The SGC is payable if an employer:

- does not pay enough super contributions for their eligible employees (at least 9% of their ordinary time earnings);
- does not pay super contributions for the quarter at all;
- does not pay super to the employee's chosen super fund; or
- pays a super contribution to a fund after the cut-off date for payment.

Can the SGC be offset?

If an employer makes a super contribution to an employee's super fund after the cut-off date, they may be able to offset this late payment against their SGC liability (a 'superannuation guarantee late payment offset').

Employers can elect to apply the late payment offset when the late payment for an employee is made into a complying super fund before the SGC assessment for the quarter is made.

Compliance project: Government stimulus payments

The ATO has recently started a compliance project that focuses on businesses that received government stimulus payments.

As part of this project, they have received information about payments made to businesses under the Home Insulation Program and Building Education Revolution, and compared this information to their other records.

The ATO will send about 5,000 advisory letters in total to businesses that have received stimulus payments to remind them they must report this income in their income tax returns and activity statements where applicable.

FBT car parking threshold

The car parking threshold for the FBT year commencing on 1 April 2011 is \$7.71 (up from the amount of \$7.46 that applied in the previous FBT year).

Engine capacity	Rate per kilometre
0 – 2,500cc	46 cents
Over 2,500cc	55 cents
Motorcycles	14 cents

Year-end planning considerations – Individuals

Defer income until after 1 July 2011

- As a planning consideration, you may consider deferring income until after 1 July 2011.
- The flood tax from 1 July 2011 may reduce the advantage.

Low Income thresholds

- If appropriate, allocate income to individuals (not minors) with income below \$16,000 or for minors \$3,333 (including the low income offset).
- From 1 July 2011, the low income offset will not be available to minors on non-personal exertion income (e.g. trust distributions).

Senior Australians

- A single senior Australian can receive \$30,865 tax free and each member of a couple can receive \$26,380 tax free.

Deductible Personal Super Contributions

- Personal contributions by individuals to super funds are non-deductible if more than 10% of their income is from employment.
- Leave entitlements received on retirement are included in employment income.
- Individuals must notify the fund they intend to deduct their personal superannuation contributions.

Super Concessional Contribution Caps

- For 2010 / 2011, the annual concessional contributions cap is \$25,000 and \$50,000 for people aged over 50.
- From 1 July 2012, the \$50,000 cap for over 50s will be limited to super fund balances of less than \$500,000.

Co-Contribution Reduction

- Non-concessional contributions up to \$1,000 are matched by the Government with a co-contribution for those earning less than \$31,920, phasing out at \$61,920.

Year-end planning considerations – Businesses

Non-Commercial Business Losses – Losses for High Net Worth Individuals

- From 1 July 2009, business losses by individuals are quarantined where the individual's adjusted taxable income is \$250,000 or more, unless a determination is received from the Commissioner of Taxation.
- Salary package expenses from those businesses can reduce adjusted taxable income but the ATO is currently considering this practice and caution should therefore be taken in packaging these expenses.

Super Guarantee and Contractors

- Under the SGB rules, employers are required to make contributions for eligible employees. Employees include independent contractors who are engaged under a contract primarily for the provision of labour.
- Where you engage independent contractors, you should determine whether the individuals are really employees for SGC purposes.
- Clauses in contracts which push the SGC obligations down to the contractors are not effective.

Super Guarantee and Hours of Work

- SGC contributions are generally based on an employee's ordinary hours of work. Ordinary hours of work generally refer to standard hours which a relevant employee is required to work (not necessarily 9am to 5pm).
- SGC contributions do not apply to overtime payments.

Company Loss Integrity Tests

- Where you control a company or trust which has carried forward tax losses, ensure the entity can satisfy the loss integrity tests prior to 30 June.

Debt Forgiveness

- If a debt you owe has been released, have you considered the commercial debt forgiveness rules, which can result in forfeiture of tax losses, future deductible amounts and / or CGT cost bases.
- Consider deferring the release until the following tax year.

Intercompany Bad Debts

- Bad debts written-off on loans made within a corporate group may be deductible if the loan was made by an in-house finance company.