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## Practice Update

Please read this update  
and contact this office  
if you have any queries

JUNE 2010

### Budget 2010

Following are the main tax measures announced in last month's Federal Budget, in addition to those already announced as part of the response to the Henry Review (see over the page).

#### 50% discount on tax on interest income

From 1 July 2011, individual taxpayers will be provided with a 50% tax discount on up to \$1,000 of interest earned, including interest earned on deposits held in authorised deposit taking institutions, bonds, debentures and annuity products.

#### Increase in the net medical expenses tax offset claim threshold

From 1 July 2010, the Government will increase the threshold above which a taxpayer may claim the 20% net medical expenses tax offset from \$1,500 to \$2,000, and will commence annually indexing the threshold to the CPI from 1 July 2011.

#### Changes to First Home Saver Accounts

The First Home Saver ('FHS') initiative will be made more flexible and allow savings in an FSA 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, an FHS account holder is required to keep their savings in an FHS account for four 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 four year period, the balance of their FHS account must be transferred to their superannuation so that it remains in a concessional tax environment.

### Changes to the super co-contribution

The Government has announced the following two changes to the superannuation co-contribution:

- ◆ the matching rate for the co-contribution will be permanently retained at 100% or \$1 for each \$1 contributed (rather than 150% or \$1.50), which means that the maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions will stay at \$1,000 (rather than \$1,500); and
- ◆ The income thresholds for the superannuation co-contribution will be frozen for 2010/11 and 2011/12, meaning the maximum co-contribution (of up to \$1,000) will continue to only be available to people with incomes of up to \$31,920 (the amount available then phases out for incomes up to \$61,920).

*Editor: Super fund members who are eligible to receive the Government's super co-contribution need to ensure they make their contributions before 30 June 2010 if they want to receive their entitlement for the 2009/10 income year.*

*To be eligible to receive a co-contribution, a taxpayer's 'total income' (assessable income plus reportable fringe benefits and reportable employer super contributions) must be less than \$61,920, and at least 10% of that total income must be from employment (e.g., salary and wages) or business activities.*

## The Henry Review

The Government also released the report of the inquiry by the Treasury Secretary, Dr Ken Henry, into the entire tax system, and the Government's initial response to it.

Further initiatives announced include:

- From 1 July 2012, a Resource Super Profits Tax ('RSPT') will be introduced at a rate of 40% on profits made from the exploitation of Australia's non-renewable resources;
- The company tax rate will be reduced to 28% (from the 2012/13 income year for eligible small business companies, and from the 2014/15 income year for other companies);
- From 1 July 2012, small businesses will be able to immediately write-off assets costing less than \$5,000 and depreciate all other assets (except buildings) in a single depreciation pool at a rate of 30%;
- The superannuation guarantee (SG) contribution rate will be increased to 12% (from the current 9%) by 2019/20, with gradual increases commencing on 1 July 2013;
- From 1 July 2013, the SG age limit will be increased to 75 years (currently 70 years), which means that employees aged 70 to 74 will generally be eligible to have SG contributions made on their behalf;
- From 1 July 2012, the Government will match concessional contributions (i.e., basically deductible contributions) which are made by or for the benefit of individuals with adjusted taxable incomes of up to \$37,000 at the rate of 15% for each \$1 of concessional contributions, with an annual maximum amount payable of \$500; and
- From 1 July 2012, individuals aged 50 or above with superannuation balances below \$500,000 will have a concessional contributions cap of \$50,000 (effectively extending the existing transitional concessional contributions cap for such individuals).

*Editor: The Government said it would not accept some Henry recommendations, such as reducing the 50% CGT discount, discounting negative gearing deductions, or abolishing the luxury car tax.*

*However, it has left some on the table, including recommendations to tax fringe benefits and employer superannuation contributions in the hands of employees, making it more difficult to claim personal tax deductions, and removing important small business concessions (such as the 50% active asset reduction and the 15 year exemption) and a range of concessional tax offsets (such as the medical expenses tax offset).*

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## Centrelink Data Matching Program

On 30 June 2010 Centrelink will complete a matching process of up to 200,000 of its customer records with the ATO Taxpayer Records System, which will enable Centrelink to identify instances where a person with a debt is eligible for a payment from the ATO (e.g., a tax refund or available credit).

Centrelink may then give a notice to the ATO requiring them to pay some, or all, of the amount to Centrelink in order to satisfy or partially satisfy a debt owed by the person to Centrelink.

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## Superannuation Clearing House: Registration details

Eligible small businesses (with fewer than 20 staff) are now able to register online to use the Government's free Small Business Superannuation Clearing House, by visiting [www.medicareaustralia.gov.au/super](http://www.medicareaustralia.gov.au/super).

The service, which commences from 1 July 2010, enables small businesses to pay their employees' superannuation to a single location in one electronic transaction.

The Clearing House will then send the contributions to the appropriate superannuation fund and employers will be able to access a record of their contribution history whenever it's needed.

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## FBT car parking threshold

The car parking threshold for the FBT year commencing on 1 April 2010 is \$7.46 (up from the amount of \$7.25 that applied in the previous FBT year).

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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## 2009/10 Individual Tax Return Checklist

### Your Checklist

- Claims for deductions ✓
- Receipts for deductions ✓
- Car claims and log books ✓
- Car record keeping ✓

*Please review the information below  
and contact our office if you need  
assistance.*

## Tax saving strategies prior to 1 July 2010

### Accelerating tax claims

*As personal income tax rates are set to decrease from 1 July 2010, there may be an additional advantage to be had by accelerating any income tax deductions into the current income year.*

The tax rates for resident individual taxpayers for the **2009/2010** income year are as follows:

Income threshold	Tax payable
0 – \$6,000	Nil
\$6,001 – \$35,000	Nil + 15% on excess over \$6,000
\$35,001 – \$80,000	\$4,350 + 30% of excess over \$35,000
\$80,001 – \$180,000	\$17,850 + 38% on excess over \$80,000
\$180,001 and over	\$55,850 + 45% on excess over \$180,000

*Note: The Medicare levy is in addition to these rates.*

### Common work-related claims made by individuals

The following outlines common types of deductible expenses claimed by individual taxpayers, such as employees and rental property owners, plus some strategies that can be adopted to increase deductions for the 2009/2010 income year.

#### 1. Depreciable plant, etc, costing \$300 or less

Salary and wage earners and rental property owners will generally be entitled to an immediate deduction if plant costing \$300 or less is purchased before 1 July 2010.

Some purchases you may consider include:

- fax machines;
- beepers and pagers;
- books and trade journals;

- briefcases/luggage or suitcases;
- calculators, electronic organisers;
- software;
- stationery;
- tools of trade.

#### 2. Clothing expenses

Purchase or pay for work-related clothing expenses prior to the end of the income year, such as:

- compulsory (or non-compulsory and registered) uniforms, and occupation specific and protective clothing;
- other expenses associated with such work-related clothing such as dry cleaning, laundry and repair expenses.

## 2010 Individual Tax Return Checklist

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### 3. Self education expenses

Consider pre-paying the following self education items before the end of the income year:

- ◆ course fees (but not HECS-HELP fees), student union fees, and tutorial fees;
- ◆ interest on borrowings used to pay for any deductible self education expenses.

Also bring forward purchases of stationery and text books (i.e., those which are not required to be depreciated).

### 4. Other work-related expenses

Employees can prepay any of the following expenses prior to 1 July 2010:

- union fees;
- subscriptions to trade, professional or business associations;
- magazine and newspaper subscriptions;
- seminars and conferences;
- income protection insurance (excluding death and total/permanent disability).

*Note: When prepaying any of the expenses above before 1 July 2010, ensure that any services are to be provided within a 12 month period that ends before 1 July 2011. Otherwise, the deductions must be claimed over the period of the prepayment.*

### Information Required

We will need you to bring information to assist us in preparing your income tax return.

Please check the following and bring along payment summaries, statements, accounts, receipts, etc., to help us prepare the return:

#### Income/Receipts

- payment summaries for salary and wages;
- lump sum and termination payments;
- government pensions and allowances;
- other pensions and/or annuities;
- allowances (e.g., entertainment, car, tools);
- interest, rent and dividends;
- distributions from partnerships or trusts;
- details of any assets sold that were either used for income earning purposes or which may be caught by capital gains tax.

#### Deductions (in addition to those mentioned above):

- ◆ award transport allowance claims;
  - ◆ bank and government charges on deposits of income, and deductible expenditure;
  - ◆ bridge/road tolls (travelling on business);
  - ◆ car parking (when travelling on business);
  - ◆ conventions, conferences and seminars;
  - ◆ depreciation of library, tools, business equipment, incl. portion of home computer;
  - ◆ gifts or donations;
  - ◆ home office running expenses:
    - cleaning
    - cooling and heating
    - depreciation of office furniture
    - lighting
    - telephone;
  - ◆ interest and dividend deductions:
    - account keeping fees
    - ongoing management fees
    - interest on borrowings to acquire shares
    - advice relating to changing investments (but not setting them up);
  - ◆ interest on loans to purchase equipment or income earning investments;
  - ◆ motor vehicle expenses (business/work related);
  - ◆ overtime meal allowances;
  - ◆ rental property expenses – including:
    - advertising expenses
    - council/water rates
    - insurance
    - interest
    - land tax
    - legal expenses/management fees
    - genuine repairs and maintenance
    - telephone expenses
    - travelling to inspect property;
  - ◆ superannuation contributions by sole traders or substantially unsupported taxpayers;
  - ◆ sun protection items;
  - ◆ tax agent fees;
  - ◆ telephone expenses (business);
  - ◆ tools of trade.
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## 2009/2010 Year-end Checklist for Business

Many of our business clients like to review their tax position at the end of the financial year and evaluate any year-end strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around two simple concepts – i.e., accelerating business deductions and deferring income.

However, Small Business Entities (SBEs) have greater access to year-end tax planning due to particular concessions that only apply to them. The SBE system commenced on 1 July 2007 and, unlike the previous Simplified Tax System ("STS"), SBEs do not need to elect to be an SBE – they can pick and choose which of the concessions they wish to use each year (although restrictions still remain in relation to the SBE depreciation rules). The basic requirement to be eligible for the SBE concessions is that the business taxpayer's annual turnover (including some related entities) is less than the \$2 million threshold.

The following are a number of areas that may be considered for all business taxpayers.

### Maximising deductions for non-SBE taxpayers

Non-SBE business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- Prepayment strategies;
- Accelerating expenditure; and
- Accrued expenditure.

### Prepayment strategies – non-SBE

Any part of the prepayment relating to the period up to 30 June is deductible in full.

In addition, non-SBE taxpayers may generally claim the following prepayments in full:

- expenditure under \$1,000;
- salary and wages; or
- expenditure required to be incurred under law.

*Editor: Prepayments can be a little confusing, so before you commit to making a payment please feel free to call us with any queries or assistance if required.*

### Accelerating expenditure – non-SBE

This is where a business taxpayer brings forward the expenditure on regular, on-going deductible items. Business taxpayers are generally entitled to deductions on an "incurred basis".

Therefore, there is no requirement for the expense to be paid by 30 June 2010 (unless they account on a cash basis). As long as the expense has genuinely been incurred, it will generally be deductible.

### Checklist

The following may act as a checklist of possible accelerated expenditure:

- Depreciating assets** costing \$100 or less can be written off in the year of purchase. Depreciating assets costing less than \$1,000 can be allocated to a low value pool and depreciated at 18.75% (which is half of the full rate of 37.5%) in their first year regardless of the date of purchase.
- Repairs** – repairs to office premises, equipment, cars or other business items.
- Consumables/spare parts.**
- Client gifts.**
- Donations.**

- Advertising.**
- Fringe benefits** – any benefits to be provided, such as property benefits, could be purchased and provided prior to 30 June 2010.
- Superannuation** – contributions to a complying superannuation fund, to the extent contributions are actually made (i.e., they cannot be accrued).

*Note that the age-based limits on the deductibility of superannuation contributions were removed from 1 July 2007, basically meaning all employer contributions are now deductible. However, an employee who receives employer contributions in excess of their own concessional contributions cap may have to pay more tax.*

### Accrued expenditure – non-SBE

Non-SBE taxpayers (and some SBE taxpayers) are entitled to a deduction for expenses incurred as at 30 June 2010, even if they have not yet been paid.

The following expenses may be accrued:

- ◆ **Salary or wages and bonuses** – the accrued expense for the days that employees have worked but have not been paid as at 30 June 2010.
- ◆ **Interest** – any accrued interest outstanding on a business loan that has not been paid as at 30 June 2010.
- ◆ **Commercial bills** – the discount applicable to the period up to 30 June, where the term of the bill extends past 30 June 2010.
- ◆ **Commissions** – where employees or other external parties are owed commission payments.
- ◆ **Fringe benefits tax** – if an FBT instalment is due for the June 2010 quarter for example, but not payable until July, it can be accrued and claimed as a tax deduction in the 2010 income year.
- ◆ **Directors' fees** – where a company is definitively committed to the payment of a director's fee as at 30 June 2010, it can be claimed as a tax deduction.

### Maximising deductions for SBE taxpayers

Deductions can be maximised for SBE business taxpayers by **accelerating expenditure** and **prepaying** deductible business expenses. Former STS taxpayers using the STS cash method cannot accrue expenses, but other SBE taxpayers on an accruals basis *can* accrue expenses (see above for accruing expenditure).

### Accelerating expenditure – SBE

Former STS taxpayers using the STS cash method\* are generally only entitled to deductions if they have paid the amount by 30 June 2010. This includes general deductions, tax-related expenses, and repairs.

\* *The requirement for STS taxpayers to use the cash method ceased from 1 July 2005.*

All SBE taxpayers can choose to write-off depreciable assets costing less than \$1,000 in the year of purchase. Also, assets costing \$1,000 or more with an effective life of less than 25 years can be depreciated at 15% (which is half the full rate of 30%) in their first year (if such assets were acquired before 31 December 2009 and installed ready for use by 30 June 2010, the SBE may also be entitled to an additional 50% deduction).

Therefore, where appropriate, SBE business taxpayers should consider purchasing/installing these items by 30 June 2010.

*Note: SBE taxpayers choosing to use the SBE depreciation rules are effectively 'locked in' to using those rules for all of their depreciable assets.*

### Prepayment strategies – SBE

SBE taxpayers making prepayments before 1 July 2010 can choose to claim a full deduction in the year of payment where they cover a period of no more than 12 months (ending before 1 July 2011). Otherwise, the prepayment rules are the same as for non-SBE taxpayers.

The kinds of expenses that may be prepaid include:

- Rent** on business premises or equipment.
- Lease payments** on business items such as cars and office equipment.
- Interest** – check with your financier to determine if it's possible to prepay up to 12 months interest in advance.
- Business trips.**
- Training courses** that run on or after 1 July 2010.
- Business subscriptions.**
- Cleaning.**

### Information Required

We will need you to bring the following information to help us prepare your income tax return:

- Stocktake details as at 30 June.
  - Debtors listing (including a list of bad debts written off) as at 30 June. *Note: In order to claim a deduction, the debt must be written off on or before 30 June.*
  - Creditors listing as at 30 June.
-