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## Practice Update

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

JUNE 2011

### Budget 2011

Following are the main tax measures announced in last month'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.

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### 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.

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### 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.

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### 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).

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### CGT improvement threshold

For the 2011/12 income year, the improvement threshold is \$130,418 (up from \$126,619 for the 2010/11 income year).

This threshold is used for working out when a capital improvement to a pre-CGT asset is a separate asset, and for capital improvements to CGT assets where a rollover may be available.

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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## 2010/11 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 2011

### WARNING: Accelerating tax claims

A good strategy to reduce tax payable is normally to accelerate any income tax deductions into the current income year. However, clients should remember that tax rates are effectively being increased for the next income year due to the imposition of the flood levy on individuals earning more than \$50,000.

The tax rates for resident individual taxpayers for the **2010/2011** income year are as follows:

Income threshold	Tax payable
0 – \$6,000	Nil
\$6,001 – \$37,000	Nil + 15% of excess over \$6,000
\$37,001 – \$80,000	\$4,650 + 30% of excess over \$37,000
\$80,001 – \$180,000	\$17,550 + 37% of excess over \$80,000
\$180,001 and over	\$54,550 + 45% of excess over \$180,000

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

In the 2011/12 income year, the Flood levy will impose an additional 0.5% levy on taxable incomes from \$50,001 to \$100,000 and 1% above \$100,000.

### 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 2010/2011 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 2011.

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.

### **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 2011:

- 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 2011, ensure that any services are to be provided within a 12 month period that ends before 1 July 2012. 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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## 2010/2011 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 replaced the previous Simplified Tax System ("STS") on 1 July 2007. Taxpayers that qualify as an SBE 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 that of some related entities) is less than \$2 million.

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 2011. 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 2011.
- Superannuation** – contributions to a complying superannuation fund, to the extent contributions are actually made (i.e., they cannot be accrued).

*Note that, since 1 July 2007, no limit applies to the amount of tax-deductible contributions an employer can make for an employee. 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 2011, 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 2011.
- ◆ **Interest** – any accrued interest outstanding on a business loan that has not been paid as at 30 June 2011.
- ◆ **Commercial bills** – the discount applicable to the period up to 30 June, where the term of the bill extends past 30 June 2011.
- ◆ **Commissions** – where employees or other external parties are owed commission payments.
- ◆ **Fringe benefits tax** – if an FBT instalment is due for the June 2011 quarter for example, but not payable until July, it can be accrued and claimed as a tax deduction in the 2011 income year.
- ◆ **Directors' fees** – where a company is definitively committed to the payment of a director's fee as at 30 June 2011, 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 who have continued to use the STS cash method since before 1 July 2005 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 who have continued to use the STS cash method since before 1 July 2005 and who qualify as an SBE are generally only entitled to deductions if they have paid the amount by 30 June. This includes general deductions, tax-related expenses, and repairs.

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 (note that, if such assets were acquired between 13 December 2008 and 31 December 2009 and then installed ready for use between 1 July 2010 and 31 December 2010, the SBE may also be entitled to an additional 50% deduction in the 2010/11 income year).

Therefore, where appropriate, SBE business taxpayers should consider purchasing/installing these items by 30 June 2011.

*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 2011 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 2012). 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 2011.
- 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.
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