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Practice Update

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

MARCH 2008

End of the FBT year – 31 March 2008

With 31 March fast approaching, FBT returns for the 2007/08 year will soon be due for lodgment in April and May.

Where we usually prepare the FBT return for your business, we ask that you collect all relevant FBT records relating to any benefits provided, such as:

- ◆ motor vehicles;
- ◆ car parking;
- ◆ entertainment;
- ◆ expense payments; and
- ◆ living away from home allowances;

together with travel diaries, employee declarations, etc.

And, don't forget to ensure that employees take odometer readings for their cars on 31 March.

Editor: Please call if you need to make an appointment or discuss the records needed.

Changes to the minor benefits exemption

The most notable change this year was that:

- the minor benefits exemption threshold increased to 'less than \$300' from 1 April 2007 (prior to 1 April 2007 it was less than \$100); and
- a Tax Office ruling states that the threshold applies to each benefit provided and not to the total value of all associated benefits.

Therefore, where, for example, an employer provides several (unrelated) benefits to an employee during an FBT year (at a cost of less than \$300 per benefit), all benefits can qualify as exempt minor benefits even though their aggregate value is \$300 or more.

EXAMPLE – Employee receives benefits valued under \$300 each

During the 2008 FBT year, John receives the following benefits from his employer:

A gift basket while in hospital for an operation	\$88
A Christmas hamper	\$110
A pen set for 10 years' service with employer	\$140
Total cost of all benefits	\$338

Each of the above benefits satisfy the minor benefits exemption threshold (i.e., each benefit costs less than \$300). As a result, each benefit can qualify as an exempt minor benefit.

How the ATO's ruling can help clients

The ATO's (new) view, that each benefit must be looked at separately when applying the exemption threshold, is a significant change to the ATO's traditional approach of applying the exemption threshold to associated benefits, particularly where:

- multiple (or associated) benefits are provided to an employee at or about the

same time (e.g., food and drink, a band and gifts, are provided at a year end party); and

- a benefit is provided by an employer to both an employee and their associate at or about the same time (e.g., an employer pays for food and drink that is provided to an employee and their spouse at a Christmas function held at a restaurant).

Editor: The ATO's traditional approach has been to aggregate the cost of all benefits provided, so this change may be able to provide significant savings to clients.

Huge opportunity! Super funds are now able to borrow to buy property

Recent changes made to the superannuation investment laws mean that, in some cases, Self Managed Super Funds (SMSFs) are now allowed to borrow to acquire property.

These changes are sure to be of great interest to the many clients who would like to be able to include real estate in their SMSF's investment portfolio.

The basic features of the arrangement

As with 'all things taxation', the details can be quite complicated. However, the basic requirements are that:

- a trust holds legal title to the property on behalf of the SMSF; and
- the financial institution can only lend on a 'limited recourse' basis.

That is, if the SMSF defaults on the loan, the lender does not have any recourse to the SMSF's other assets – the lender can only make a claim against the property being acquired under the loan.

Once the loan is set up and the property acquired:

- ◆ The property is rented out, and rents paid direct to the SMSF.
- ◆ The SMSF makes loan repayments to the lender and pays all other outgoings in relation to the property.
- ◆ When the mortgage is paid out, the property can be retained by the trust or transferred to the SMSF CGT and GST-free.

Note: This change can allow an SMSF to acquire a client's own business premises. In that case, the premises are 'business real property' and may be purchased from a related party of the SMSF.

*However, residential property **cannot** be purchased from a member of the fund (or an associate), but must be purchased from a party unrelated to the fund, to avoid breaching the 'acquiring assets from related parties' rule.*

Changes to personal income tax rates and thresholds

The Government has introduced a Bill to Parliament to reduce personal income tax rates and increase thresholds.

The tables below show the current income tax rates and thresholds and the new rates and thresholds that will apply from 1 July 2008.

Resident Individuals – 2007/08	
Taxable Income \$	Tax Payable \$
0 – 6,000	Nil
6,001 – 30,000	15% of excess over \$6,000
30,001 – 75,000	\$3,600 + 30% of excess over \$30,000
75,001 – 150,000	\$17,100 + 40% of excess over \$75,000
150,001+	\$47,100 + 45% of excess over \$150,000

Resident Individuals – 2008/09	
Taxable Income \$	Tax Payable \$
0 – 6,000	Nil
6,001 – 34,000	15% of excess over \$6,000
34,001 – 80,000	\$4,200 + 30% of excess over \$34,000
80,001 – 180,000	\$18,000 + 40% of excess over \$80,000
180,001+	\$58,000 + 45% of excess over \$180,000

(What they call) 'aspirational goals'

The Government has also set a goal of having just three brackets of personal tax rates of 15%, 30% and 40% from 1 July 2013. Whatever they call them, let's hope they come good on their aspirations.

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.