



Winter Edition

June 2006



matthew tol + associates

Client Information Bulletin

It's nearing the end of the financial year and there are a number of opportunities for our clients to really add some value to their professional activities and their ultimate wealth. The time is ideal for getting some plans in place to take us beyond where we are currently placed toward the goals we should be setting for ourselves.

We recently attended a seminar where the accountancy profession was put under the spotlight. A lot of accountants have been in what we refer to as "compliance lock" whereby they are so busy meeting their various clients' deadlines with the Tax Office, state regulatory bodies and ASIC that they don't actually take time to work with their clients on planning for their future.

We have been undertaking a process over the past year or so where we are starting to work

more closely with a number of our clients on developing plans and strategies to move them from where they are to where they want to be. It is a fascinating challenge and has seen some outstanding results. In effect, we are moving back to being accountants!

We will be in touch with all of you (our clients) in the near future to discuss the issues that are important to you and what we can do to assist you move from "here to there". As mentioned, where we have been doing this, the results have been fantastic and it supports our goal of providing our clients with certainty, clarity and comfort.

Have a successful and prosperous new year.



Superannuation and the 2006 Budget—what does it all mean?

Reasonable Benefit Limits abolished:

- No effective limit on what can be accumulated
- Less complication in benefit design
- No reporting requirement with the ATO

Contributions:

- Age base limits removed
- No limit on amount of employer contributions
- Fund can accept employer contributions to age 75
- **Self employed get a full deduction (as opposed to 75% currently)**
- **Annual deduction limit from all sources of \$50,000 pa per person**
- **Fund Taxed on excess contributions at top marginal rate**

Currently an employer is entitled to claim a deduction for their employee up to their aged based limits. This means that if a taxpayer has more than one employer, they are able to "double dip" and pay super to their superfund up to their aged based limits per employer. The contributions are taxed at a flat rate of 15% in the super fund.

The budget proposals abolish the "double dip" scenario and aged based limits to now allow only a \$50,000 contribution per employee, across all employers. This \$50,000 will be taxed at a rate of 15% in the superfund. If a tax payer wishes to contribute above this amount into their superfund, the employer will still receive a full deduction, but anything contributed over the threshold, will attract tax at the "top marginal rate" (TMR) of 45%.

This has a huge impact on tax payers who currently may contribute through salary sacrifice at their top marginal rates, and also through another structure or a self employed contribution, to gain deductions for possibly two times their aged based limits. This is still possible, but the impact on the superfund is that on the second contribution, an extra 30% tax is payable.

The Government will introduce transitional rules for those **over 50 years of age during** the transition period. (eg: turning 50 on June 8th 2008, \$100,000 can be contributed):

New Super Aged Based Limits 2006/2007

Maximum deductible contributions:

Under 35	\$15,260
35—49	\$42,385
50 and over	\$105,113

Financial Year **Maximum Contribution**

2007-08	\$100,000
2008-09	\$100,000
2009-10	\$100,000
2010-11	\$100,000
2011-12	\$100,000
2012-13	\$50,000

Undeducted Contributions:

- Limited to \$150,000 per person per annum
- Possibly to be averaged over 3 years
- Fund must pay back excess to member
- Fund taxed at TMR on income from excess
- CGT rollover exempt from limit

Employer ETP's

- Tax effectiveness will be severely restricted
- Cannot be rolled over
- Exempt – pre '83, post '94 invalidity
- Taxable – post '83
 - Under 55 – First \$140,000 @ 30%
 - Over 55 – First \$140,000 @ 15%
 - Balance at TMR

Benefits – 60yrs plus

- No tax on lump sums
- No tax on pensions
- Does not form part of assessable income
- Not ever required to take benefit

Benefits – under age 60

- Lump Sums – Two components
 - Taxable component – exiting post '83
 - Exempt component – all other components
- Taxable component
 - Under 55 – 20%
 - Over 55 – Tax free threshold then 15%
- Exempt component – No tax

Disclaimer:

The contents of this publication are general in nature and we accept no responsibility for persons acting on information contained herein.

Tax Tips & Reminders



Tax Cuts

Income tax cuts come into effect as of 1 July 2006. Please ensure that the rates are amended in your payroll software as of that date. It would be advisable to check beforehand with your payroll software support (eg. MYOB, Quicken, etc) when you will be receiving the new tax rate updates, or if you can easily download them from their internet site.

Personal income tax thresholds and rates will be amended as follows:

Current threshold income range \$	Current tax rate	From 1 July 2006 income range \$	Tax rate from 1 July 2006
0—6,000	0%	0—6,000	0%
6,001—21,600	15%	6,001—25,000	15%
21,601—63,000	30%	25,001—75,000	30%
63,001—95,000	42%	75,001—150,000	40%
95,001 +	47%	150,001 +	45%



PAYG Payment Summary Statements

Businesses should have received their PAYG Payment Summary Statement from the Tax Office. Please ensure that the statement is completed and lodged with the Tax Office by **14 August 2006**. When completing the statement, please ensure that the **gross amount** and the **tax withheld** amounts are reconciled to the amounts that have been included in your business activity statements lodged throughout the year.

If you have not received the statement from the Tax Office, please contact us and we will arrange to have it sent to you.

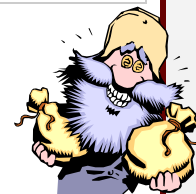
Super Co-contribution

The Super Co-contribution is an Australian Government initiative to assist eligible individuals to save for their retirement.

Changes to the co-contribution mean that from the 2004-05 financial year, more people may be eligible for a co-contribution.

If you are eligible and make personal superannuation contributions, the Government will make a co-contribution up to certain limits.

[Click here for further information](#)



Recent Tax Office Developments

2006-07 Budget Highlights for Small Business

The 2006-07 budget recently handed down by the Government has made many provisions for small business. This is a snap shot of some tax measures announced in the 2006-07 budget. It is *not* an exhaustive list of all the Government's small business provisions.

Implications of WorkChoices on Employment Contacts

As part of the Federal Government's new *Workplace Relations Amendment (WorkChoices) Act 2005* introduced on 27 March 2006 The Australian Fair Pay and Conditions Standard (also known as 'the Standard') was established and will apply to most employees.

[Click on item headings for further information](#)

Franchisor Disclaimers—Written Contracts Prevail

Self-education expenses are not deductible when there is no relevant connection between the self-education expenses and production of an assessable income.

Child Care Tax Rebate Reminder

As part of the Government's *Tax Laws Amendment (2005 Measures No. 4) Act 2005* parents are reminded the 30 per cent child care tax rebate is available. It helps families reduce their costs for approved child care.

(Please note that you claim your rebate for the expenses incurred in 2005 in your 2006 income tax return).

Tax Planning

An Overview

Business people should be conscious of tax planning issues throughout the financial year and not just at the end of the financial year.

Tax planning should not be thought of just one week prior to the end of a financial year.

Tax planning should be a constant affair and whilst tax is not the most important consideration in determining an investment strategy, it is big enough to figure in the calculations.

It is important that proper documentation and records are kept to support your interpretation of all business transactions as to whether expenditure is deductible and income is assessable.

Self Assessment

The Australian Taxation Office operates a system called "self assessment".

This means that the Tax Office basically accepts your taxation return at face value, but they select a significant number of returns each year for audit and review.

Tax Audit

At some time, virtually all business taxpayers will be subject to a tax audit.

This means that all claims that have been made in an income tax return have to be able to be substantiated.



*"It pays to plan ahead—
we can prepare your tax
planning, and help you
reduce tax"*

Tax Planning (cont.)

Legally Minimising Tax

There are a number of things that a taxpayer can do to minimise income tax.

Whilst some are complicated, the majority are not too complicated but they can make a big difference to the amount of tax you have to pay.

Some things relate to investment strategies that the benefits will emerge from over a number of years.

It is important that you claim what you are legally entitled to.

The timing of payments can also have a significant effect - especially if you are classified as a "small" taxpayer for prepayments (turnover under \$1m).

For "small" taxpayers bringing forward expense payments and delaying the receipt of income is one of the most popular methods of reducing the amount of tax that you will have to pay.

Strategies For Reducing Tax

There are a number of strategies that you can adopt that over a period of time will reduce the amount of tax that you have to pay.

These include:-

- Negatively Geared Investments.
- Primary Production and Forestry Investments.
- Films.
- Superannuation.
- Employees requesting employers to pay some expenses as part of salary packages that are not subject to Fringe Benefits Tax.
- Placing investments in the name of a spouse or some other person if that person is in a lower tax bracket.
- Utilising Discretionary Trusts to distribute income to persons in lower tax brackets.
- Prepayment of expenses (if your turnover is under \$1m).
- Being able to use Franking Credits.

Negatively Geared Investments

Negative Gearing is where borrowed money is utilised for business investments in Property, Shares, Primary Production, Forestry Investments etc. and the interest and other expenses of the loan exceed the income.

The loss so generated is referred to as the "Negative Gearing Loss".

Subject to the investment having been properly structured and for a legitimate business reason the loss so generated will be a deduction in determining taxable income.

Tax Office Attitude To Negative Gearing

The Tax Office are continually on the look out for claims for negative gearing losses they can reject. They will only allow a negative gearing loss as a deduction if there is the intention that the investment will generate a profit in the future that will be subject to income tax.



Primary Production And Forestry Investments

Various Primary Production investments are available for investors. Care should be taken to ensure that the investment vehicle is properly structured and is administered by reputable managers with a track record of being able to successfully manage these types of investments. Does the proposed investment "stand up" as an investment?

Schemes should never be entered into just for the tax deduction. Is there any likelihood of long term business success from the investment?

What are the cashflow requirements? Will you have to make further contributions? What are the percentage returns?

Films

Investment in Australian Films can generate tax deductions.

However, give consideration to the long term likely success of the film.

Superannuation

Superannuation is a strategy that should be considered. Self employed persons are able to claim the first \$5,000 contribution plus 75% of anything in excess of this as a tax deduction provided you keep within specified limits.

Employers can make contributions on behalf of employees.

The limits are:-

- Age under 35 \$14,603
- 35 to 49 \$40,560
- 50 and over \$100,587

Employees are not able to claim a tax deduction on contributions (although there is a limited tax rebate worth a maximum of \$100) but they may be able to arrange a salary sacrifice with their employer for more superannuation contributions to be made on their behalf by the employer subject to the specified upper limits.

Employees Can Negotiate With Employers To Pay Some Expenses

Employees can negotiate with their employers to pay some of their expenses as part of salary packages that are not subject to Fringe Benefits Tax.

This would include items such as conferences, travelling and accommodation, briefcases, laptop computers, journal subscriptions and airport lounge membership.

Placing Investments In The Name Of The Person On The Lowest Tax Bracket

Another strategy worth considering within a family is having investments made in the name of the person who is in the lowest tax bracket e.g. spouse who is not earning income.

Utilising Discretionary Trusts To Distribute Income

The use of Discretionary Trusts as investment vehicles can generate significant benefits in that it enables the Trustee to distribute income to various Beneficiaries so as to minimise the income tax payable.

Prepayment Of Expenses (Small Business Taxpayer)

If you are a "small" taxpayer for prepayment purposes (turnover under \$1m) consideration can be given to advancing deductions into the current financial year by the prepayment of expenses for periods of up to 13 months.

Being Able To Utilise Franking Credits

If you buy shares in the name of a person consideration should be given as to whether the person in whose name they are bought is able to utilise the Franking Credits so as to reduce their personal income tax.



"place investments in the name of a spouse or some other person who is in a lower tax bracket"



"the Tax Office are continually on the look-out for claims for negative gearing losses they can reject"

Biggest Morning Tea



A special thanks to those of you who attended our "Biggest Morning Tea" and made a donation to The Cancer Council.

It was a great success and over \$500 was raised!

(PS... another big thank you to Michelle for organising everything and... yes, we were eating leftovers for the next week!)



New staff member

Rachel Warton will be joining us in early July, and her position will be trainee accountant. Rachel is currently working in Shepparton, and has a background in audit but is looking to work in the tax compliance area. Rachel is also a competitive basketball player and previously won a scholarship to the US for nine months.

(Sorry Pete, another female in the office!)

New 1300 telephone number

We now have a telephone number which is 1300 883 654. You can call us on this number from anywhere in Australia for the set cost of 25¢ (a higher rate applies to mobile phones).

Have you smiled today.....



Polyunsaturated

Did you know that...

- ★ If you can start the day without caffeine,
- ★ If you can get going without pep pills,
- ★ If you can always be cheerful, ignoring aches and pains,
- ★ If you can resist complaining and boring people with your troubles,
- ★ If you can eat the same food every day and be grateful for it,
- ★ If you can understand when your loved ones are too busy to give you any time,
- ★ If you can take criticism and without resentment,
- ★ If you can ignore a friend's limited education and never correct him,
- ★ If you can resist treating a rich friend better than a poor friend,
- ★ If you can conquer tension without medical help,
- ★ If you can relax without liquor,
- ★ If you can sleep without the aid of drugs,

you are probably

What pets do when we're at work.....



The family dog



Famous quotes..

"Let us endeavour so to live that when we come to die even the undertaker will be sorry"

(Mark Twain)