

# "In Brief with Elite"

Vol. 12 – December 2007



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Welcome to the 12<sup>th</sup> edition of "In Brief with Elite".

From all of us at Elite we wish you a very Merry Christmas and a brilliant New Year!



## IMPORTANT DATES

**November 2007 Monthly IAS/BAS**

21 November 2007

**December 2007 Monthly BAS/IAS**

21 January 2008

**December 2007 Quarterly BAS/IAS**

Self Prepared 28 February 2008

EFS Prepared 28 February 2008

**January 2008 Monthly BAS/IAS**

21 February 2008

## THINKING OF STARTING A BUSINESS

Are you someone who has recently started a new business or is considering starting a new business?

The Australian Taxation Office has created a useful checklist for people who are looking at starting a new business.

The "Checklist for People Starting a New Business" identifies common tax

issues that must be considered when starting a new business.

The checklist covers such categories as:

- Getting Started
- Keeping Records
- GST
- Fuel Tax Credits
- Employees; and
- Paying Tax

The Checklist also provides relevant contact details if you require any further clarification or advice.

You can view the checklist for new businesses by going to <http://www.ato.gov.au/businesses/content>.

You should contact us at Elite prior to commencing your business to ensure you establish the most appropriate tax structure.

## THE ESSENTIALS OF A DIVISION 7A LOAN AGREEMENT

The Tax Office has released a determination outlining the essential elements that need to be in writing for a valid Division 7A Loan agreement to be in place.

You should consider whether any transactions you have made with the private company will require a Division 7A loan agreement.

Division 7A applies to transactions between a private company and a shareholder or associate to prevent the company making tax free distributions to the shareholder/associate.

A Division 7A loan agreement is a loan agreement between the private company and its shareholders or associates to avoid the provisions of Division 7A applying.

The essential elements that must be in writing are:

1. The names of the parties,
2. The terms of the loan, i.e., the amount, the date drawn, the requirement to repay, the period, the interest rate,
3. That the parties have agreed to the terms,
4. The date of the agreement.

These elements may be contained in a formal written loan agreement between the parties. Note - A Division 7A Loan Agreement will not exist where all the essential elements are not in writing.

It is also essential for all the elements of the loan agreement to be in writing before the due date of lodgment of the company's tax return for the year in which the loan is made.

**PERSONAL INSURANCE PREMIUMS – ARE YOU ENTITLED TO A DEDUCTION?**

Are you an individual taxpayer or Trustee of a Super Fund?

You may be entitled to a deduction for the payment of certain personal insurance premiums.

Generally, the deductibility of insurance premiums depends on the following:

- The person or entity making the payment; and
- The type of insurance premium.

The table below shows the types of insurance premiums and their deductibility:

|                            | Premium paid by Super Fund             | Premium Paid by Individual [non super policies]  |
|----------------------------|--|--|
| Death                      | Deductible                             | Non-deductible                                   |
| Total Permanent Disability | Deductible                             | Non-deductible                                   |
| Income Protection          | Deductible [temporary disability only] | Deductible [excluding personal injury component] |

Ensure you are aware of the deductibility of insurance premiums. For more information please contact our office.

**ALP PROPOSES FIRST HOME SAVERS ACCOUNTS**

Under the plan, eligible first home buyers will be able to open a new savings account in order to save for a deposit for an eligible first home purchase.

The savings account will be taxed at concessional rates, similar to how superannuation is currently taxed. Eligible savers will be able to contribute up to \$5000 pre-tax income and \$5,000 post-tax income each year. According to Labor leader Kevin Rudd, the accounts will allow a couple - each on an average wage saving 10% of their income - to save around \$64,000 over a period of five years.

Release of the funds will only be allowed after a qualifying period of 4 years for the purchase of an eligible first home.

Where the funds are withdrawn for reasons other than an eligible first home purchase, the tax concessions will be removed.

Only people eligible for the first home buyers grant will be eligible for the proposed home savers accounts.

**NSW LAND TAX THRESHOLD FOR 2008**

The NSW State Government has revised the land tax threshold for the 2008 land tax year. If you own property in New South Wales that is not your principal place of residence, including property that does not earn any income, you may be liable to pay land tax. You are not required to pay land tax if the value of the property is below the land tax threshold. For the 2008 land tax year, the average threshold will be determined as follows:

| INDEXED AMOUNT FOR: | INDEXED AMOUNT |
|---------------------|----------------|
| 2006 land tax year  | \$352,000      |
| 2007 land tax year  | \$356,000      |
| 2008 land tax year  | \$369,000      |
| Average             | \$359,000      |

The threshold applies to land owned on December 31, 2007.

If you own property in NSW, you may be liable to pay land tax if the value of the property exceeds \$359,000.



## ***CAPITAL GAINS TAX – LAND ADJACENT TO YOUR MAIN RESIDENCE***

In certain circumstances, any capital gains or losses you make on the disposal of land that is adjacent to your main residence may be ignored for capital gains tax purposes.

Land that is adjacent to a dwelling will be treated as part of the main residence where:

- the land is used primarily for domestic or private purposes in association with the dwelling; and
- the land area does not exceed 2 hectares.

The land does not have to touch or connect with the main residence for these purposes – it only has to be close to the dwelling to enable it to be used in association with the dwelling.

According to a Tax Office determination – TD92/171 – the adjacent land and the dwelling do not necessarily have to be acquired at the same time.

The capital gain or loss on sale of adjacent land will be ignored for capital gains tax purposes only if the land is sold to the same person and at the same time you sell the dwelling.

That is, the main residence exemption will not apply to adjacent land if:

- you dispose of the adjacent land to the same purchaser but at a different time from when you dispose of the main residence; or
- you dispose of the adjacent land and the main residence to different purchasers, even if the disposals happen at the same time.

Where adjacent land exceeds 2 hectares, the cost base of the land must be apportioned on a pro-rata basis between the main residence and the remainder of the land.

## ***NEW SUPER FUNDS RETURN DUE ON 28 FEBRUARY 2008***

Funds that registered in 2006-07 must lodge their income tax and regulatory returns by 28 February 2008. Trustees must appoint an approved auditor in time to complete their audit by this date.

New funds can also lodge their member contributions statements (MCSs):

- at the same time, or
- separately, by 31 March 2008.

All self managed super funds (SMSFs) must appoint an approved auditor to assess their financial statements and overall compliance with super laws. It's important that SMSF's don't lodge their income tax and regulatory returns until after their audit is finalised, as they need information from their audit reports to complete their regulatory returns.

## ***CHRISTINE'S CORNER***

### **Make a New Years Resolution to save more!**

Turn over a new leaf in 2008 and start up a saving plan to build wealth for your future.

Despite volatility in sharemarkets, waiting for the 'best time' to invest in the sharemarket, actually prevents many people from achieving financial freedom.

Christine Hallows, Financial Planner, advises that timing investments is impossible to do with any real accuracy, and success of an investment portfolio depends on the length of time you spend in the market, NOT on your ability to buy and sell based on short-term market fluctuations.

The secret to success is to buy quality stocks with a history or rising dividends and rising capital values and hold onto them.

Successful investment plans such as 'dollar cost averaging' are not based on

timing the market at all; instead a consistent amount is invested steadily. It doesn't matter if investment prices are high or low when they are bought. The amount you invest is consistent, so fewer shares are bought when their price is higher, and more when it is lower.

Here at Elite we can provide advice on buying share portfolios or diversified managed funds to assist you create wealth for your future.

So why not make 2008 the year that you make your New Years Resolution a reality by commencing a "**Savings Plan**"

## ***QUOTE OF THE QUARTER***

[From the desk of David Harrison:](#)

"The future belongs to those who believe in the beauty of their dreams".

## **DISCLAIMER**

The information contained in this newsletter is of a general nature and is not constituted as advice.

Elite Financial Solutions take no responsibility for clients who act upon the information contained in this newsletter without consulting us first.