

# "In Brief with Elite"

Vol. 5 March 2006



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Welcome to our Autumn edition of "In Brief with Elite". We trust your Christmas break was both safe and enjoyable.

We hope you have had a chance to view our new and improved website which has informative up-to-date information to help both your business and your wealth creation.

This edition has updates on the medical expenses offset and also includes information on preparing for retirement, small business debt, investing and the impact of salary packaging with the new tax rates.



From all the staff at Elite, we wish you a safe and Happy Easter.

## NEW STAFF

We would like to introduce the newest staff members who have joined the team at Elite.

Amir Aghdaei - Accountant

Bryan Tan - Accountant

## IMPORTANT DATES

### March Quarter BAS/IAS

Self prepared 28 April 2006

EFS Prepared 25 May 2006

On our lodgement list,  
but self prepared 11 May 2006

### April Monthly IAS

21 May 2006

### May Monthly IAS

21 May 2006

### 2006 Fringe Benefits Tax Return completed Schedule to Elite Financial Solutions

15 April 2006

### Lodgement and payment

15 May 2006

## FRINGE BENEFITS TAX

Yes, it is that time of year again! For those of you that have received a Fringe Benefits Tax (FBT) Schedule, this will need to be completed and returned to our office by the 15<sup>th</sup> April 2006. If you have not received a Schedule, and feel you may have FBT liabilities, please contact our office.

## IMPORTANT – 2005 INCOME TAX RETURNS DUE NOW!

For those clients who have not lodged their 2005 income tax returns, the time to act is now!

The deadline is fast approaching and fines and interest charges may apply to tax returns that are lodged late.

So please forward your information to our office or call and make a time to see one of our consultants.

## MEDICAL EXPENSES OFFSET – EXCLUSION OF PURELY COSMETIC PROCEDURES

The Australian Government will exclude purely cosmetic procedures from the Medical Expenses Offset (MEO), with effect from the 2005-06 income year.

The Government will amend the definition of eligible medical expenses under the *Income Tax Assessment Act 1936* to restrict access to the MEO, so that taxpayers will no longer be able to claim this offset in relation to purely cosmetic procedures.

The Government considers that the MEO should cater for those taxpayers with significant medical expenses arising out of legitimate medical need.

Taxpayers claiming the MEO in respect of cosmetic procedures for legitimate medical need, such as skin grafts or reconstructive surgery, will not be affected by this measure.

The MEO is available to resident

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taxpayers at a rate of 20 per cent of any net medical expenses above the \$1,500 threshold in an income year. The MEO does not apply to any proportion of expenses reimbursed by Medicare or health insurance funds.

Be sure to keep a record of all your family's out-of-pocket hospital, dental, optical, pharmaceutical and other expenses so that we can make a claim in your 2006 tax return.

### **LOOKING AT SMALL BUSINESS DEBT INITIATIVE**

In June 2004, the ATO gave small businesses an opportunity to clear their outstanding tax debts under favourable terms.

Over 160,000 small businesses chose to engage, but unfortunately there are still many small businesses that haven't worked with the ATO to clear their debt.

A new approach from the ATO is to trial new and innovative ways of contacting and engaging with people who have a debt. The ATO is currently contacting people directly by phone after business hours. They want to be reasonable in helping taxpayers pay their tax debt.

Another trial will be referring debt to an external collection agency for those people with a debt of less than \$7,500, and who haven't responded to letters or phone calls.

The trial is scheduled to begin in March and finish by the end of June 2006.

The ATO will work with a highly experienced collection agency which will only be authorised to attempt to secure payment in full or offer people payment arrangements.

No debt will be 'on sold' to collection agencies, any uncollected debt will remain the responsibility of the Tax Office.

All trials will be evaluated to ensure they meet community expectations of fairness and due process.

The ATO's general approach is to work with small businesses to help them meet their tax obligations.

### **THE NEW TAX RATES: SHOULD I STILL PACKAGE A CAR?**

The personal income tax rate changes announced in the May 2005 Federal Budget have an impact on employees who are salary packaging benefits.

The changes particularly impact employees who were previously on the highest marginal tax rate and earning between \$63,000 and \$95,000 a year for the 2005-06 year and up to \$125,000 a year for the 2006-07 year.

Cars and car parking are attractive benefits to package when you compare the fringe benefits tax (FBT) cost against salary taxed at a 48.5 percent rate. As more employees will no longer be paying the top marginal rate, they need to consider all the packaging choices available before they enter into a novated lease that will run for the next three to four years.

In light of this, more employees should consider using the 'employee contribution method' to get the maximum advantage out of packaging a car. This method requires the employee to contribute some of their after-tax salary towards the cost of the benefit. The after-tax contribution reduces the FBT liability that would otherwise be charged to an employee's package.

The end result is that the employee will sacrifice a lower amount of pre-tax salary and combine that with an after-tax contribution.

For example, an employee with an annual salary of \$80,000 who packages a car with a base value of \$30,000 (that travels 20,000 kilometres in the FBT year) could be approximately \$580 better off in the 2005-06 tax year, and \$1,300 better off in the 2006-07 year if they use the employee contribution method to salary package the car rather than charging all running costs and FBT against their pre-tax package. *Note* – It's important to remember the example is for illustrative purposes and is based on a number of assumptions.

### **Car salary packaging example 2006/07 year:**

	No package	FBT charged to package	Employee contribution
Remuneration	\$80,000	\$80,000	\$80,000
Running costs		(\$10,000)	(\$4,000)
GST on employee contribution			(\$545)
FBT		(\$6,196)	
<b>Taxable income</b>	<b>\$80,000</b>	<b>\$63,804</b>	<b>\$75,455</b>
Tax and medicare	(\$22,260)	(\$15,959)	(\$20,263)
After tax costs			
Running costs		(\$11,000)	
Employee contribution			(\$6,000)
<b>Cash remaining</b>	<b>\$46,740</b>	<b>\$47,845</b>	<b>\$49,172</b>

### **RISKY INVESTMENTS**

Too good to be true, probably is!

With the demise of the property market many investors are now looking elsewhere to make their fortune.

Unfortunately while other investments may provide a higher return, caution must be exercised as they may also be much more risky.

Factors to take into consideration in investment include the main purpose for entering into the investment scheme. If the primary purpose of an investment is to get a tax deduction, or to negative gear, the ATO may by law, disallow the deduction. To be safe, if unsure it may be best to obtain a private ruling from the tax office.

Also its always a good idea to investigate the promoter of the investment scheme and their intentions. Things to check for include whether they are registered with the ASIC, whether they have a prospectus or product disclosure statement lodged with the ASIC, and if so check this to see the benefits of the investment to the promoter and if this is reasonable.

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Be careful of aggressive marketing to sell these investment schemes, and check to see whether a return on your investment is guaranteed or if the investment may lead to a loss. Keep in mind that if an investment sounds too good to be true it often is. To ensure the investment is solid, it is always best to consult an independent tax, financial and legal adviser as opposed to taking the promoters word for it.

### **INVESTORS WARNED ON INVESTMENT DOWNTURN RISKS**

Investors, consumers and directors should guard against feeling overconfident and making financial decisions based on expectations that the current rosy economic landscape will continue indefinitely, remarked Mr Jeffrey Lucy, Chairman of ASIC.

He noted that economies typically work in cycles and historically downturns have followed growth periods. 'History has shown that decisions made in the good times can have repercussions in the bad,' Mr Lucy said.

'However, overconfidence, apathy, or complacency in decision-making can potentially return to haunt punters when the economy moves in the opposite direction,' he added.

Mr Lucy said that while investors must take responsibility for their own decisions to some extent, he is concerned that many of the decision makers have not seen or lived through an economic downturn.

If you are unsure, please contact Christine Hallows of our office.

### **CHRISTINE'S CORNER**

#### **How much money will you need in retirement?**

If you're preparing for retirement, it can be difficult to know, "How much is enough?"

A good rule of thumb in determining your retirement needs is 60 – 70% of your pre-retirement income.

The following table shows the level of capital required, assuming a retirement age of 65 years:

Desired annual retirement income	Capital required if earning 6% pa*	Capital required if earning 8% pa*
<b>\$60,000</b>	\$964,639	\$808,144
<b>\$50,000</b>	\$803,866	\$673,453
<b>\$40,000</b>	\$643,093	\$538,762
<b>\$30,000</b>	\$482,320	\$404,072
<b>\$20,000</b>	\$321,546	\$269,381

\*Figures are indexed to 3% pa to reflect the effects of inflation. Centre-link entitlements and tax are excluded from the calculations. Calculations based on the life expectancy of a 65 year old female (approx. 22 years).

For advice to help you guarantee the retirement lifestyle you want, contact the team at Elite Financial Solutions.

### **Update to new super legislation and see how it can benefit you !!**

There has been a number of recent changes to superannuation legislation and *all of it positive*.

Many of you may know that surcharge was abolished last year, which makes it far more attractive for high income earners to contribute to superannuation.

This year starting from 1 January 2006, there is a new legislation called '*Super Splitting*' which will allow you to split contributions with your spouse.

Why would you do this? This will allow a person with a much larger super balance to split their contributions with their spouse who has a much smaller balance.

The long term result is a more even amount of capital between a couple to reduce income tax liability in retirement.

It also has a great advantage of both of you being able to access the **tax free** threshold, which is \$129,751 this financial year (indexed each year) for people over 55 and retired. This means **double** the tax savings on withdrawal from super.

The other advantage is for a person close to their Reasonable Benefit Limits (see limit below) can split benefits to their spouse, effectively increasing the amount of

concessionally taxed money allowable between you.

### **Reasonable Benefit Limits – RBLs**

This is a limit imposed on the amount of concessionally taxed monies you can receive in your lifetime.

The current limits this financial year are:

- Lump Sum                 \$ 648,946
- Pension                   \$1,297,886

### **QUOTE OF THE QUARTER**

**"Do not follow where the path may lead. Go instead where there is no path and leave a trail."**

### **FINAL THOUGHTS**

At Elite, our aim is to make dealing with your financial affairs as simple as possible.

Our highly trained team of Financial Services Consultants specialise in a range of areas including tax, accounting, business services, superannuation, investing, lending, leasing and wealth protection are able to provide you with the right advice for your situation every time.

With 4 financial planners, 7 accountants and 3 support staff, we have the size and resources to look after all your financial needs while still being able to maintain that valuable client relationship that is lost with the bigger institutions.

So make the decision today to simplify your financial affairs and deal with the one financial services practice. Call us to arrange a complimentary no obligation appointment to see one of our Financial Services Consultants who will explain just what we do and how we can help you.

### **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.