

"In Brief with Elite"

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Welcome to the sixth edition of 'In Brief with Elite'. This edition has updates on the recent proposed budget changes as well as the items that are not affected by the proposed budget.

With tax time just around the corner, now is the time to start getting together all of your statements and source documents. Your client manager will be contacting you early in the new financial year to let you know when you need to have your information forwarded to our office.



IMPORTANT DATES

June Quarter BAS/IAS

Self prepared 11 August 2006

EFS Prepared 25 August 2006

June Monthly IAS

21 July 2006

July Monthly IAS

21 August 2006

August Month IAS

21 September 2006

TAX FREE SALE

If you are considering moving your business to a larger premises, your after tax profit may be significantly higher than you expect.

You may even be able to sell your current premises entirely tax free.

Many self managed entities benefit from valuable capital gains tax

concessions on business sales. However, the eligibility to these concessions spans a much wider range of circumstances than only business sales.

You do not have to sell your business to qualify for the generous small business concessions. You may be eligible for these concessions if you sell any active capital asset used in the course of your business. The definition of "active assets" is not limited to goodwill - it can even apply to good old bricks and mortar.

Assuming that your combined business assets do not exceed \$5 million, you are entitled to the small business concessions on the basis that the property is an active asset of the business. The active asset test requires assets to be used in the business for at least half the time since the date of acquisition and does not exclude real estate unless the real estate is mainly used to derive rental income.

Example of how concession works

The small business concessions are only available for active assets used in carrying on a business. Assuming the gross capital gain on sale of the property is \$600,000 and you have held the property for over 12 months, and in individual names, the capital gain can be reduced first by the 50% general CGT discount and then by the 50% active asset reduction. The resulting net capital gain is thus \$150,000.

From here you have a few choices. You can either:

- (i) pay the tax on the \$150,000 net capital gain;
- (ii) pay no tax by contributing this amount into super; and/or
- (iii) pay no tax by buying a replacement asset (eg the new premises).

For more information please contact our office.

INVESTING FOR CHILDREN

The need to start investing at an early age is becoming increasingly important, especially as the young of today will more than likely have to rely on their own investments to fund their retirement, instead of the government.

For this reason, teaching children at an early age the fundamentals of investing is becoming more common place – many parents have learnt the hard way about failing to invest at an early age and letting money compound.

The effectiveness of compounding increases with time. For example a one-off investment of \$1,000 at age 35, would have grown to \$10,063 by age 65 (assuming a growth rate of 8%). However, a one-off investment of \$1,000 when a child is 10 years old that is left until age 65 would have grown to \$68,914 (assuming a growth rate of 8%).

Once parents recognise the value and importance of starting a savings plan for their children at an early age, the next step is to find a suitable investment choice and structure it to meet their needs.

Please contact Christine of our office as there is a myriad of investment vehicles available.

Lodging Tax Returns

If the child's income is limited to investment income and is less than \$772 in a financial year, then no tax is payable and a tax return is not required. A tax return only needs to be lodged when the minor is entitled to a refund in the situation where imputation credits paid to the minor exceed the income tax liability for the financial year.

This is also true of distributions from trusts comprising dividends paid to beneficiaries.

CONSIDER SPOUSE CONTRIBUTIONS

If your spouse does not work or earns a low income, you may be able to make a contribution to their superannuation fund and receive a tax offset. This means you could claim an 18 per cent tax offset on super contributions of up to \$3,000 made on behalf of your spouse. There are several conditions. Firstly, the maximum rebate possible is \$540. Secondly, you must make the contribution to either a complying superannuation fund or a retirement savings account. Thirdly, your spouse must receive \$10,800 or less of assessable income and reportable fringe benefits per annum. Fourthly, the Australian Taxation Office defines "spouse" as a person who, although not legally married to you, lives with you on a bona fide domestic basis as your husband or wife. It doesn't include a person living separately and apart from you on a permanent basis. The rebate phases out (\$1 for \$1) up to an income of \$13,800 pa.

EXPLORE DEDUCTIBLE CONTRIBUTIONS

The Government has in place existing tax relief measures to assist those who are self-employed and making personal contributions to their own super savings. Currently, this includes the opportunity to receive a tax deduction for 100 per cent of the first \$5,000 contribution you make per annum to super as well as 75 per cent of any contributions you make over \$5,000. However, take note that an age based deduction limit applies for the current fiscal year.

See *Christine's Corner* at end of this Newsletter to determine your age based limit. In addition, if you are self employed for the majority of the year, but not the whole year, you also may be able to claim a tax deduction.

PROPOSED FEDERAL BUDGET IMPLICATIONS

Personal Taxation

- The two highest marginal tax rates will decrease from 42% to 40% and from 47% to 45% respectively.
- The threshold for receiving the full low income tax offset will increase.
- Effectively, an individual taxpayer will be able to earn an annual income of \$10,000 in 2006/2007 without paying income tax, up from \$7,567 in the 2005/2006 year.
- From 2006/2007 the tax free threshold of \$6,000 will not be pro-rated as previously done for taxpayers leaving full time education to start work part way through the financial year.
- Senior Australians will not pay income tax or Medicare levy until they earn \$24,867 (singles) or \$41,360 (couples).

Family Tax Benefit

- A family will be able to receive up to \$4,318 per child, families will be eligible for this maximum rate of FTB with an income of up to \$40,000, up from \$33,361 in 2005/2006
- Families will receive the large family supplement for the third and each subsequent child in 2006/2007, previously only being available from the fourth child.

Fringe Benefits Tax

- As a result of the 2% decrease in the highest 2 marginal tax rates, the Gross up values of fringe benefits will be decreased from 1.9417 to 1.86915 for non-GST benefits and from 2.1292 to 2.0647 for benefits with GST
- From 1 April 2007 the threshold for the exemption on in house

benefits will increase from \$500 to \$1000 allowing employers to provide their own goods and services to employees at a discount to the retail price without incurring FBT.

- From 1 April 2007 the threshold for the minor benefits exemption provided on an infrequent basis will increase from \$100 to \$300 allowing a greater range of these benefits to be provided without FBT.
- From April 2007 the reportable fringe benefits threshold will increase from \$1000 to \$2000 meaning that employers will no longer need to report benefits given if the grossed up value of the benefit to the employee is less than \$2000. Similarly Employees receiving fringe benefits of less than \$2000 will not have to report these on their tax returns.
- There has been a reduction in the FBT rate from 48.6% to 46.5% which will come into effect from 1 April 2006.

Proposed Superannuation Legislation

- Reasonable Benefits Limits will be abolished
- Pension incomes will be tax free after age 60
- Deductible Contribution changes
 - Effective from 1 July 2007, deductible contributions would be subject to a limit of \$50,000 per financial year. This flat limit will replace the current 'age based limits', which increase as you get older. If you are under 50, your limit will increase under the proposed change, however, if you are 50 or over, your limit will decrease substantially.
 - For this reason the Government has indicated that a transitional limit of \$100,000 will apply for those people 50 and over until the 2012/13 financial year (at which time it will reduce to \$50,000).

- In addition, the current maximum age for making deductible contributions to superannuation will increase from 69 to 74 from 1 July 2007.

- Undeducted Contributions limited to \$150,000
 - Effective from 9 May 2006, undeducted contributions (also known as personal contributions, which are after tax) would be subject to a limit of \$150,000 per financial year. The Government has also indicated that it will consider averaging this amount over 3 years to allow larger one-off undeducted contributions although we have no detail on this yet.
 - It has been indicated that amounts contributed in excess of \$150,000 within a financial year may be returned to the individual with the top Marginal Tax Rate applying to all earnings on the excessive undeducted contribution.

Business Taxation

- The diminishing value rate for uniform capital allowances will increase from 150% to 200% for eligible assets as of 10 May 2006.
- There will be a liberalization of eligibility requirements to enter the simplified tax system removing the \$3 million depreciating assets test and increasing the annual turnover threshold from \$1million to \$2million. This means that any business with an annual turnover of less than 2million will be eligible to enter the STS.

TRAVEL EXPENSES

Car logbooks

A log book needs to be kept for a continuous period of twelve weeks in the first year that a claim is made for car expenses and is valid for five years. The five year period commences on the later of the due date for lodging the return and the date the return is lodged for that year.

Even though a logbook has been kept in the first year, this doesn't automatically entitle the business to claim the same percentage in the following four years. An estimate of the logbook percentage still needs to be made in the next four years taking into account the actual logbook, odometer records, and any variations in the pattern of business use of the car throughout the year.



Travel with your diary

For trips within Australia, a travel diary only needs to be maintained in the following two situations:

1. The business owner is a sole trader, partner in a partnership, or an employee not receiving a travel allowance, for a trip of six continuous nights or more, and the trip is not solely for business purposes.
2. A travel allowance is paid to the business owner in the capacity of an employee for a trip of six continuous nights or more, and the travel claim exceeds the reasonable allowance amount published by the Australian Taxation Office.

For overseas travel, a travel diary is required to be kept where the travel is for six continuous nights or more, regardless of the business portion of the trip, and whether or not a travel allowance is received.

An itinerary that has been prepared before the trip is undertaken can serve as a travel diary.

If the trip is within Australia or overseas and a travel allowance is not received, the business owner must keep receipts for all food, drink, incidentals and accommodation.

If the trip is within Australia a travel allowance is received, and the business owner employee claims no more than

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the reasonable allowance limit, no receipts are required to be kept for food, drink and incidental. However, these expenses do need to be substantiated where the business owner employee claims more than the reasonable allowance, receipts must be kept for all these expenses regardless of the duration of the trip.

If the trip is overseas, a travel allowance is received and the business owner employee claims up to the reasonable allowance limit, receipts only need to be kept for accommodation expenses regardless of the duration of the trip. However, again all expenses must be substantiated if the business owner employee claims more than the reasonable allowance limit, receipts are required to be kept for all accommodation, food, drink and incidentals regardless of the duration of the trip.

TIPS

- Keep accurate and comprehensive records for tax purposes.
- Keep your records safe and sound and in an easily accessible area
- Get specific tax advice to suit your own business circumstances from a qualified, experienced professional.

BACKUPS

If you rely on your computer to run your business (and who doesn't these days?), it is essential to have a planned backup strategy to prevent loss of vital information in the event of fire, flood, hardware failure, theft -- or simple user error!

Having decided on what to back up, and how often, and selected what medium you are going to use, buy enough blank disks/tapes to set up a rotation. You should have at least two sets for each type of backup, using them alternately. This way, you have a fallback if the most recent backup turns out to be unusable.

You'll also need to plan an occasional full system backup (programs plus

data). This can be done less often, since programs rarely change.

- don't store your backups next to the computer!

Fire, flood, or other calamities could wipe the lot out. At least store backups in a separate room (and preferably keep one set offsite). A car is not a particularly good place to store backups since magnetic media are sensitive to variations in temperature so a couple of hours parked in the sun or in sub-zero temperatures could render them useless.

- test your backups from time to time; in other words, try restoring files from them to a temporary directory on your PC, just to check that the disk or tape is readable.

If you get yourself organised, backups really don't require a lot of time and effort on your part. Don't wait for disaster to strike before you take action -- do it now, and enjoy the satisfaction the first time you calmly recover a precious "lost" file from a backup!



CHRISTINE'S CORNER

What hasn't changed with the new budget?

There has been a number of proposed changes to superannuation in the budget as mentioned in our newsletter. So I thought it worth mentioning what hasn't changed:

Self employed and substantially self employed tax deductions to superannuation

Although it is proposed to change the limits, they do not change until 1 July 2007.

This financial year and next the deductions are as follows:

First \$5,000 fully deductible and remaining 75% deductible up to age based limits.

Age based deductions	Age based limit	Contribution required for maximum deduction for self employed
Less than 35	\$14,603	\$17,804
35 but less than 50	\$40,560	\$52,413
Over 50	\$100,587	\$132,449

To qualify to be substantially self employed you need to be either receiving no superannuation support or income from employment is less than 10% of all other income.

If you are retiring before age 65, this provides a good opportunity to sell assets which have a capital gains tax liability and be eligible to claim a tax deduction to contribute to superannuation to reduce or eliminate tax.

Spouse Splitting

Is it still worthwhile to split if Reasonable Benefit Limits (RBLs) are proposed to be abolished and taxes eliminated at retirement?

Yes, this is still a worthwhile strategy, particularly if you or your spouse plan to retire before age 60 and your spouse has significantly less super than you.

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A person over age 55 is still able to withdraw \$129,751 (in the current financial year) tax free.

Therefore to split your SG contributions and salary sacrifice contributions to your spouse's superannuation once a year and have access to two tax free thresholds at retirement before age 60 is still a very tax effective strategy.

Co-contribution

	If your personal super contribution is:			
	\$1,000	\$800	\$500	\$200
And your income is:	Your Super Co-contribution will be:			
\$28,000 or less	\$1,500	\$1,200	\$750	\$300
\$30,000	\$1,400	\$1,200	\$750	\$300
\$32,000	\$1,300	\$1,200	\$750	\$300
\$34,000	\$1,200	\$1,200	\$750	\$300
\$36,000	\$1,100	\$1,100	\$750	\$300
\$38,000	\$1,000	\$1,000	\$750	\$300
\$40,000	\$900	\$900	\$750	\$300
\$42,000	\$800	\$800	\$750	\$300
\$44,000	\$700	\$700	\$700	\$300
\$46,000	\$600	\$600	\$600	\$300
\$48,000	\$500	\$500	\$500	\$300
\$50,000	\$400	\$400	\$400	\$300
\$52,000	\$300	\$300	\$300	\$300
\$54,000	\$200	\$200	\$200	\$200
\$56,000	\$100	\$100	\$100	\$100
\$58,000	\$0	\$0	\$0	\$0

Source: Australian Tax Office

This has not changed and a person earning an income under \$28,000 will still receive a co-contribution from the government of \$1,500 if a personal (after tax) contribution is made of \$1,000 to their superannuation fund.

The co-contribution cuts out at an income of \$58,000. The table in the previous column shows the optimum contribution to receive the co-contribution.

As you can see superannuation still has complexities despite proposed changes and it is wise to seek financial advice to determine the best strategy for your circumstances.

Please call Christine on 02 9868 3900 for an obligation free appointment.

QUOTE OF THE QUARTER

"Luck is what happens when preparation meets opportunity"

FINAL THOUGHTS

For many the ever changing and complex world of wealth creation and protection is all too much and often these important affairs are left to chance. But with the things we take for granted in every day life becoming more and more uncertain, can you really afford not to ensure that you and your family are going to be looked after both now and in the future?

At Elite Financial Solutions our aim is to simplify this complex world by offering you straightforward and effective advice that will look after all your financial needs. By offering all the financial services a person may need under the one roof we are able to concentrate on creating and implementing an all encompassing financial plan that will help you to achieve your financial and lifestyle goals.

So give us a call and make a time to come in and see one of our professional advisors and see just how simple the whole process can be.

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