

# "In Brief with Elite"

Vol. 10 – June 2007



## Inside this Issue

**The biggest reform to Australian superannuation ever!**

**Resident Tax Rates**

**Cents per km car expense rate for 2006/07 year**

**Insuring Key Players**

**Tax Office Flag CGT Compliance**

**Inheriting Tax Problems**

**Alignment of Small Business Tax Concessions**

**Changes to the deductibility of income protection insurance**

**Work incentives - Income tax**

**Improving Child Care Assistance**

**Similar Tax for Small Business**

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Welcome to the 10<sup>th</sup> edition of "In Brief with Elite".



## IMPORTANT DATES

**May 2007 Monthly BAS**  
21 June 2007

**June 2007 Quarter BAS/IAS**  
Self Prepared 28 July 2007

EFS Prepared 25 August 2007

**June 2007 Monthly IAS**  
21 July 2007

**July 2007 Monthly IAS**  
21 August 2007

**August 2007 Monthly IAS**  
21 September 2007

## THE BIGGEST REFORM TO AUSTRALIAN SUPERANNUATION EVER

The Australian Government has introduced the biggest reform to superannuation ever. From 1 July 2007, the Better Super changes will give Australians the opportunity to improve their lifestyle in retirement. The reforms will ensure:

- If you are over 60 you will pay no tax on your super payout if you are in a taxed super fund (that's most workers).
- Most self-employed people will be able to claim all their super

contributions as a tax deduction, subject to a maximum limit.

- If you are over 60 and want to continue to work you will be able to take part of your super as regular income - tax-free - and use it to top up your take-home pay. You can then salary sacrifice any excess income.
- It will be easier to combine multiple super accounts into one fund.

The Better Super changes will increase retirement incomes, simplify the taxation of super, give more flexibility and choice in how super can be accessed and improve incentives to work and save.

You may be starting work or you may have been working for some time. You may work for someone else or you may be self-employed. Your retirement may be just around the corner or thirty years away. Whatever your circumstances, the new changes make super an even better investment for your future.

To ensure you get maximum benefit from the Better Super changes, you need to check that your employer has provided your tax file number to your super fund. It helps you keep track of your money and makes sure you pay the lowest rate of tax on contributions.

## RESIDENT TAX RATES

The current tax rate scales for residents (excluding Medicare levy) applicable from 1 July 2006 to 30 June 2007, are:

RESIDENT TAX RATES: 1 JULY 2006 – 30 JUNE 2007	
Taxable income	Tax payable
0 – 6,000	Nil
6,001 – 25,000	Nil + 15% of excess over 6,000
25,001 – 75,000	2,850 + 30% of excess over 25,000
75,001 – 150,000	17,850 + 40% of excess over 75,000
150,001+	47,850 + 45% of excess over 150,000

## "In Brief with Elite"

The resident tax rates are proposed by the 2007/08 Budget are as follows:

<b>PROPOSED RESIDENT RATES: 1 JULY 2007 – 30 JUNE 2008</b>	
<b>Taxable income</b>	<b>Tax payable</b>
0 – 6,000	Nil
6,001 – 30,000	Nil + 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

<b>PROPOSED RESIDENT RATES: 1 JULY 2008 ONWARDS</b>	
<b>Taxable income</b>	<b>Tax payable</b>
0 – 6,000	Nil
6,001 – 30,000	Nil + 15% of excess over 6,000
30,001 – 80,000	3,600 + 30% of excess over 30,000
80,001 – 180,000	18,600 + 40% of excess over 80,000
180,001+	58,600 + 45% of excess over 180,000

### **CENTS PER KM CAR EXPENSE RATES FOR 2006/07 YEAR**

'cents per kilometre' rates for calculating deductions for car expenses for the 2006/07 income year are:

<b>2006/07 rate per kilometre (cents)</b>	<b>58</b>	<b>69</b>	<b>70</b>
<b>Engine capacity rotary engine (cc)</b>	0 – 800	801 – 1,300	69
<b>Engine capacity non-rotary engine (cc)</b>	0 – 1,600	1,601 – 2,600	2,601 +
<b>Type of car</b>	Small car	Medium car	Large car

### **INSURING KEY PLAYERS**

Many small to medium size companies are highly dependent on key employees who have intricate knowledge of the company and contribute significantly to the businesses' success.

While these key players are invaluable assets to a company as a source of competitive advantage, a company's reliance on these employees can put the company in a vulnerable position. For example, in the ill-fated event of an accident or death, the company not only loses an employee, it loses the experience, skills, and business relationships the employee has developed.

In light of this inherent risk, businesses are taking up 'key man' life insurance policies and similar types of policies to ease the impact on the company in the event of an injury or death of a key employee. In doing so the insured parties should, however, be aware of the tax implications of these insurance policies.

#### *Key man policies*

As a general rule, the cost of premiums on life insurance is not deductible. An exception to this is where the insurance policy proceeds are intended to replace a revenue receipt, which the death of the employee, for instance, has prevented from arising. Accordingly, the cost of a policy premium is deductible if the policy is intended to make up for the loss of business earnings resulting from the death of a 'key man'.

For these purposes, the Commissioner considers that the intention of a policy should be determined having regard to 'all the surrounding circumstances', including the use to which proceeds from the policy are put. This may be shown by advance declarations of the taxpayer's intentions evidenced by minutes of meetings and book entries. Proceeds from policy claims are generally not assessable. As above, they are, however, included in a company's assessable income to the extent that they are received on revenue account, for instance where the purpose of the insurance policy is to replace a revenue receipt.

### *Cross insurance policies*

In certain situations where there are, for example, two key employees in a private company, it may be appropriate for the two employees to take out cross insurance policies in respect of each other. In these cases, premiums paid are not deductible to the policy owner to the extent that the proceeds from these policies are used by the policy owner to acquire the insured's interest in the company from the deceased party's estate. In such cases, as the policies are intended to provide funds for a potential future capital outgoing, any proceeds from the cross insurance policies to the policy owner are tax-free on capital account. Under the CGT rules, the proceeds paid constitute consideration for the acquisition of a capital asset being the other employee's interest in their estate.

### **TAX OFFICE AGAIN FLAGS CGT COMPLIANCE ISSUES FOR INDIVIDUALS**

The Tax Office has again flagged a number of CGT compliance issues it has come across:

- Many taxpayers did not understand that a capital gains obligation exists.
- Some taxpayers failed to lodge a tax return for the year in which the capital gain was realised.
- A significant proportion of cases reviewed were taxpayers incorrectly claiming the main residence exemptions. In some cases, the Tax Office noted that the taxpayer never moved into the property but claimed it as a main residence.
- Taxpayers/agents also used the settlement date instead of the contract date to calculate the gain, which resulted in the gain/loss being attributed to the wrong income year, or the 50% discount being incorrectly claimed. In other cases, the cost base or reduced cost base was miscalculated.
- There were a number of instances where the taxpayer attempted to change tax agents to cover up the disposal of the property. According to the Tax Office, the tax agents

continued to be unaware of the existence of investment properties and/or the subsequent disposal of that property.

### **INHERITING TAX PROBLEMS**

When a person dies, not only do their assets pass to their beneficiaries but unexpected tax liabilities may also be inherited by their beneficiaries. These tax liabilities may arise from the subsequent sale of capital assets without the benefit of offsetting capital losses that expire upon the person's death. Alternatively, a tax liability may arise due to the need for the person to 'put their affairs in order' before their death. Consequently, effective estate planning is required to prevent loved ones inheriting tax liabilities upon the death of a wealthy individual.

#### ***Losing losses***

Tax losses may be carried forward indefinitely during a person's lifetime. But revenue and capital losses incurred, accumulated and carried forward by the deceased expire, extinguish and cease upon a person's death. Consequently, the taxpayer's estate may incur substantial tax liabilities on post-death income from assets or from the disposal of the assets. These taxable profits are not reduced by any pre-death losses of the taxpayer.

#### ***Inherited taxes***

Most people tend to accrue or hold onto appreciating assets and sell those assets that have fallen in value. This applies particularly to people who have invested in the share market. Unfortunately, strategies like this could create tax problems for the heirs of the estate. How? When a person dies, the post-CGT assets of the deceased pass to the executors at their cost base at the time of death. Any capital gain made on the disposal of those shares by the executor is a capital gain in the hands of the estate. Where the deceased has during their lifetime 'cleaned out' the unsuccessful share investments, no capital losses are available to be offset against the capital gains made by the estate.

So the tax disadvantage is not borne by the deceased during their lifetime. Instead, the disadvantage of the gifts made by the deceased falls on the heirs and beneficiaries.

#### ***Keeping losses alive***

The above examples underline the need for estate planning. Where an individual is accumulating substantial capital losses, it is probably not prudent to allow those capital losses to run on indefinitely. Positive steps should be taken to realise assets, even if by way of wash sales (i.e. transfer from the individual to an associate) and thereby recoup the losses as well as update the cost base of the asset for CGT purposes. Clearly, but regrettably, the older the person, the more important this issue becomes.

#### ***Use your trust***

The capital gains need not be realised by the individual but could instead be realised by a trust of which the individual is a beneficiary. For example, where the individual has capital losses, and the trust has capital gains, there is a positive advantage in realising those capital gains. The capital gains may be passed by the trust through to the individual taxpayer and thereby extinguish any tax liability associated with those capital gains. If the funds from the asset sales are reinvested through the trust the new assets will have a newer and higher cost base. If there are any subsequent capital losses, caused by a fall in value of those assets, at least the capital losses are in an entity having a longer life than any particular individual. There is more probability that the losses may be recouped in the trust than in the hands of the individual.



*"Someday, son, none of all this will be yours."*

#### ***A planning opportunity***

Unfortunately, many solicitors happily engage in drafting wills without much appreciation of the taxation issues raised above. A greater degree of planning and consideration of the taxation position is required for wealthy individuals than is commonly appreciated. Whilst the contemplation of one's death is one of the less cheerful parts of life, nonetheless taxation and death remain evermore entwined as the two certainties.

### **ALIGNMENT OF SMALL BUSINESS TAX CONCESSIONS**

The Federal Government recently released the Exposure Draft Tax Laws Amendment (Small Business) Bill 2007, which standardises the eligibility criteria for small business tax concessions from 1 July 2007. This is in accordance with the Treasurer's press release in late 2006.

The proposal is that small businesses will only have to apply one eligibility test to access a range of small business tax concessions, the test being that any businesses with an annual turnover of less than \$2 million will be able to access any of the GST, STS, CGT, FBT and PAYG small business concessions.

### **CHANGES TO THE DEDUCTIBILITY OF INCOME PROTECTION INSURANCE PREMIUMS WITHIN SUPERANNUATION**

On 28 March 2007, the Commissioner of Taxation issued Tax Determination (TD) 2007/3. This tax determination replaces TD 1998/27 which has subsequently been withdrawn.

Under TD1998/27 a superannuation fund was generally not entitled to a tax deduction for premiums in Income Protection policies (IPP) where the payments were made for longer than two years during periods of disability. An exception was where special approval was sought and given by the Commissioner of Taxation.

## "In Brief with Elite"

TD 2007/3 allows a superannuation fund to claim a tax deduction for insurance premiums on IPP where the benefit is payable for a period greater than two years on the proviso that the benefits payable under the terms of the insurance policy are in line with Superannuation Industry Supervision Act 1993 requirements. That is, the superannuation fund is maintained for an ancillary purpose of providing its members with a benefit where they cease work due to ill health.

This recent change will allow superannuation funds to cover for the full period of the disability and claim a deduction for the premiums.

A copy of TD 2007/3 can be obtained by searching for 'TD 2007/3' at the following link <http://law.ato.gov.au>.

### **WORK INCENTIVES FROM INCOME TAX REFORM**

This tax package will increase disposable incomes and provide additional incentives to participate in the workforce.

From 1 July 2007:

- The 30 per cent threshold will be raised to \$30,000
- The Low Income Tax Offset (LITO) will be increased from \$600 to \$750 per year and phase out from \$30,000, up from \$25,000.

The increase in the LITO creates an effective tax free threshold of \$11,000 for low income earners.

Senior Australians who are eligible for the Senior Australians Offset will now pay no tax on their annual income up to \$25,867 singles and \$43,360 for couples.

From 1 July 2008:

- The 40 per cent threshold will be raised to \$80,000
- The 45 per cent threshold will be raised to \$180,000.

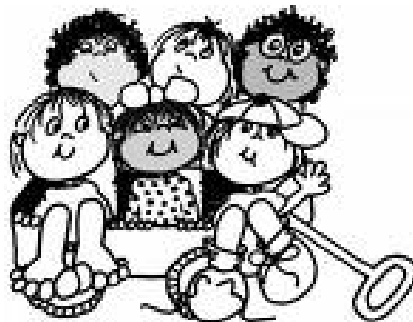
### **IMPROVING CHILD CARE ASSISTANCE**

From 1 July 2007 rates of CCB will increase by 10 per cent, on top of indexation.

A family on maximum rate of CCB with one child in Long Day Care for 40 hours per week will receive \$134.80 per week – an extra \$16.04.

From 1 July 2007, families will receive the Child Care Tax Rebate (CCTR) – up to \$4,200 per child – as a direct payment shortly after the year in which they incur child care costs.

Families with out-of-pocket costs in both 2005-06 and 2006-07 will receive two rebates in 2007-08, one through the tax system under current arrangements and the other as a direct payment.



### **SIMILAR TAX FOR SMALL BUSINESS**

This budget includes a number of measures to reduce tax compliance costs for small business. These initiatives build on the measures in the 2006-07 Budget which reduced compliance costs and extended access to tax concessions to small business.

From 1 July 2007, businesses with turnover below \$75,000 need not register for the GST. Those who voluntarily register will have the option of report

ing and paying GST annually. In addition, from 1 July 2008, taxpayers who voluntarily register for GST and choose to report and pay GST annually, may also pay their GST as you go instalments annually.

From 1 July 2007, more small businesses will be able to apply to access a simplified accounting method for calculating their GST. This will generalise the arrangement that has been implemented for food retailers, small restaurants, cafes and caterers.

For purchases of \$75 or less, businesses will no longer require a tax invoice to claim a GST credit. This will be of particular benefit to smaller businesses, which will need only one set of documents for these purchases for both income tax and GST purposes.

From 2007-08, small businesses with excise obligations will be able to settle these on a monthly rather than weekly basis.

### **QUOTE OF THE QUARTER**

From the desk of David Harrison:

"A single conversation across the table with a wise man is worth a month's study of books"

### **DISCLAIMER**

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

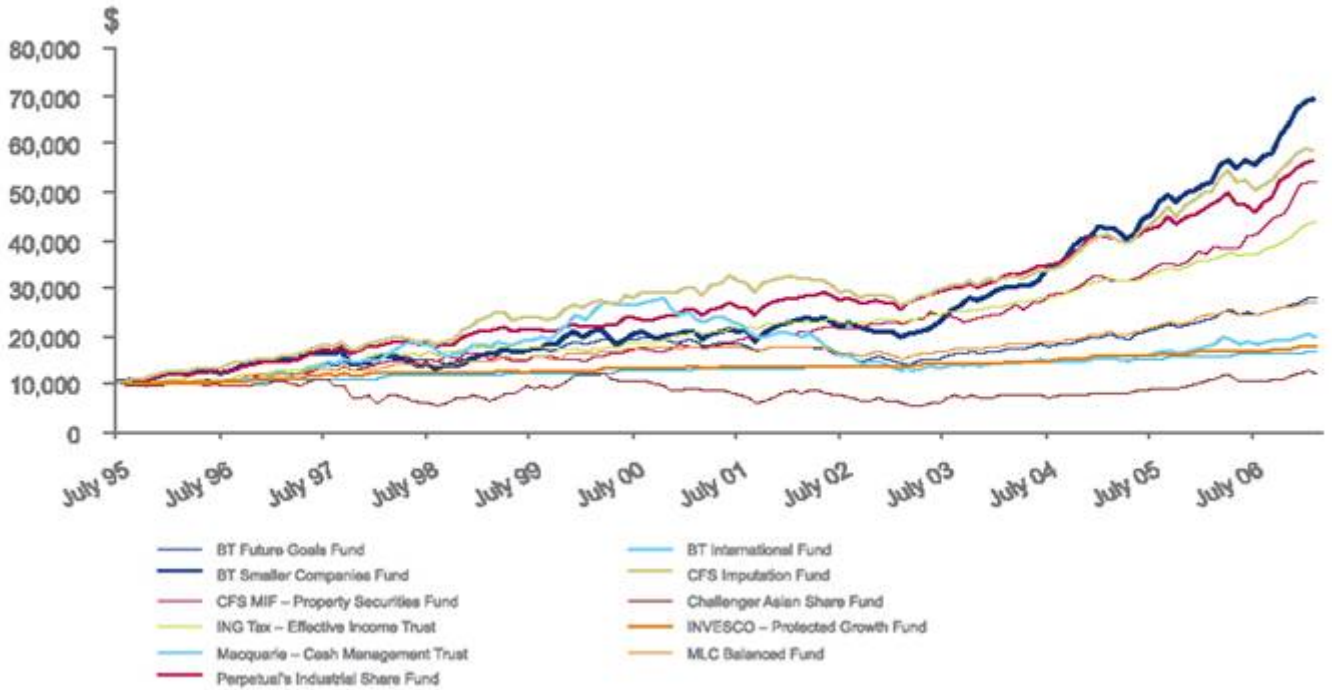
Elite Financial Solutions take no responsibility for clients who act upon the information contained in this newsletter without consulting us first.

## Count's 12 monitored investments – how they have performed over 12 years?

Almost 12 years ago, Count made 12 separate investments of \$10,000 into a range of investments to demonstrate the principles of successful investing. Count invested across Australian and International shares, property, fixed interest and cash, **but how have they fared?**

**GRAPH 1: COUNT'S MONITORED INVESTMENTS 1995-2007**

Note: the graph below only shows a selection of our monitored investments.



Ranking		Investment	Present value at 31/12/2006*	Value at 31/12/2005*	Invests in:
2006	2005				
1	1	BT Smaller Companies Fund	\$66,890.78	\$50,431.33	Australian shares (smaller public co's)
2	2	Colonial First State Imputation Fund	\$57,706.12	\$48,135.78	Australian shares
3	3	Perpetual Industrial Share Fund	\$55,081.51	\$45,405.72	Australian shares
4	4	Colonial First State Property Securities Fund	\$50,821.95	\$37,381.81	Listed property trusts
5	5	ING Tax-effective Income Trust	\$41,807.20	\$34,873.66	Balanced diversified
6	6	BT Future Goals Fund	\$27,263.21	\$23,373.24	Growth diversified
7	7	MLC Balanced Fund	\$25,358.38	\$22,644.98	Balanced diversified
8	9	BT International Fund	\$20,018.43	\$17,752.66	International shares
9	8	CBA Term Deposit	\$18,098.49	\$17,395.70	Bank term deposits
10	10	Invesco Protected Growth Fund	\$17,602.99	\$16,501.67	Conservative diversified
11	11	Macquarie CMT	\$16,366.97	\$15,622.46	Cash
12	12	Challenger Asian Share Fund	\$12,259.87	\$10,326.32	Asian shares (excluding Japan)
<b>TOTAL PORTFOLIO VALUE</b>			<b>\$409,275.90</b>	<b>\$339,845.33</b>	

\* Tax advantaged

The investments show that diversified and long term investing has paid off. Speak to Christine of our office if you are interested in setting up an investment plan that can help achieve your goals and build your wealth.