

“In Brief” with



Securing your financial future!

2008/09 Federal Budget

Against a backdrop of economic uncertainty, rising interest rates, inflationary pressures and a volatile share market the Federal Treasurer, Wayne Swan, delivered a larger than expected \$21.7 billion budget surplus for 2008-09.

For the sixth consecutive year significant tax cuts were announced and the savings are summarised in the tables below. An individual taxpayer will need to earn over \$121,739 to pay an effective average rate of tax of more than 30% (including Medicare) in 2008/09. The Government also reaffirmed its commitment to reduce tax rates to three levels (15%, 30% and 40%) by 2013/14.

The Budget is not all handouts. The Government will claw back some revenue from higher income earners by 'means testing' a number of Government benefits including Family Tax Benefit and the Baby Bonus.

Budget Highlights

Tax Cuts worth \$46.5 billion over the next four years. The tax cuts are aimed at low and middle-income families. Workers on \$50,000 per annum will get a tax cut of \$1,000 while workers earning less than \$14,000 per annum will pay no tax from 1 July 2008. The threshold for the 30% tax rate will raise from \$30,001 to \$34,001 and from 1 July 2008 the 40% tax threshold will increase from \$75,001 to \$80,001 with the 45% threshold rising from \$150,001 to \$180,001.

Income Tax Thresholds

| 2007/08 Tax Thresholds | Tax Rate (%) | New Tax Thresholds from 1 July 2008 | Tax Rate (%) | New Tax Thresholds from 1 July 2009 | Tax Rate (%) |
|------------------------|--------------|-------------------------------------|--------------|-------------------------------------|--------------|
| \$0 - \$6,000 | 0 | \$0 - \$6,000 | 0 | \$0 - \$6,000 | 0 |
| \$6,001 - \$30,000 | 15 | \$6,001 - \$34,000 | 15 | \$6,001 - \$35,000 | 15 |
| \$30,001 - \$75,000 | 30 | \$34,001 - \$80,000 | 30 | \$35,001 - \$80,000 | 30 |
| \$75,001 - \$150,000 | 40 | \$80,001 - \$180,000 | 40 | \$80,001 - \$180,000 | 38 |
| \$150,001 + | 45 | \$180,001 + | 45 | \$180,001 + | 45 |

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Important Dates

| | |
|-----------------------------|-------------------|
| June 2008 Monthly IAS/BAS | 21 July 2008 |
| July 2008 Monthly IAS/BAS | 21 August 2008 |
| August 2008 Monthly IAS/BAS | 21 September 2008 |
| June 2008 Quarterly BAS/IAS | |
| Self Prepared | 11 August 2008 |
| EFS Prepared | 25 August 2008 |

Income Tax Savings

| Taxable Income | 2008/09 Annual Saving | 2009/10 Annual Saving |
|---------------------|-----------------------|-----------------------|
| \$35,000 - \$45,000 | \$1050 | \$1350 |
| \$50,000 | \$1000 | \$1300 |
| \$80,000 | \$1100 | \$1250 |
| \$100,000 | \$1100 | \$1650 |
| \$120,000 | \$1100 | \$2050 |
| \$180,000 + | \$2600 | \$4750 |

Budget Highlights cont..

Baby Bonus: This payment will be increased to \$5,000 from 1 July 2008 and indexed annually. It will now be paid in 13 fortnightly instalments of around \$385, rather than a lump sum. Eligibility will be limited to families with 'adjusted taxable incomes' of \$75,000 or less in the six months after the birth of a baby (equivalent to an annual income of \$150,000) from 1 January 2009.

Child Care Rebate: This will be increased from 40% to 50% which means that half of a family's total out-of-pocket child care costs will be met every year. The cap on the amount that can be paid each year will also be lifted from the current amount of \$4,354 to \$7,500 per child per year, paid quarterly. From 1 July 2008 this will now be means tested.

Education: From 1 July 2008, families that are eligible to receive Family Tax Benefit Part A will be entitled to a refund of up to half of the cost of their children's education expenses. This will help the families of around 2.3 million school-age children meet education costs including computers, printers, text books, software and internet connections (but excluding school fees, uniforms and excursions). The maximum refund is \$375 per primary school student and \$750 for every secondary school student. All four years olds will now have access to pre-school for 15 hours per week by 2013.

In addition, the Government will provide \$1 Billion over 4 years to ensure all year 9-12 students have

access to their own computer and provide an additional \$5.7 Billion over 5 years to fund a National Broadband Network.

Superannuation: The Government reiterated its policy to preserve the tax-free nature of superannuation payments to those over 60. It will now also include non-wage remuneration such as salary sacrifice superannuation, in income tests for a range of Government financial assistance programs.

Senior Australians: From 1 July 2008, senior Australians eligible for the senior Australians tax offset will pay no tax on their annual income up to \$28,867 for singles and \$24,680 for each member of a couple. By 1 July 2010, these thresholds will rise to \$30,685 for singles and \$26,680 for each member of a couple.

Medicare Levy: More than one million Australians will save up to \$1,500 as the Government plans to change the threshold where a one per cent Medicare levy surcharge kicks in if no private patient health cover is held. Singles would be able to earn up to \$100,000 while couples would be able to earn up to \$150,000 before the one per cent surcharge applies. The low income threshold for Medicare has also been increased to \$17,309 for individuals and \$29,207 for individuals in families.

Luxury Car Tax: The rate has increased from 25% to 33% with effect from 1 July 2008 and the threshold increases from \$57,123 to \$57,180 which represents an increase of \$2,000-\$2,600 on popular luxury

Fringe Benefits Tax: The broad based FBT exemption for laptops and similar items is being restricted. Such items provided by employers will now be required to be used 'primarily for work purposes' for the FBT exemption to apply. Meals consumed on premises by an employee under a salary sacrifice arrangement will now be subject to FBT.

Depreciation On In-House Software: The write off period will increase from 2.5 years to 4 years (on a straight line basis) for expenditures incurred after 7.30pm on 13 May 2008 (reduces the depreciation rate from 40% to 25%).

GST Concessions: Access to the small business CGT concessions via the small business entity rules (ie \$2m turnover) will be extended from 1 July 2007 to cover associated entities. The extension applies to entities that hold assets which are used by a small business entity, eg will cover a trust that owns property which is rented to an associated company for use in its business.

*Thank you
for referring your friends
and colleagues to us.
The finest compliment we
can receive is a referral
from our clients.*

Own a Rental Property?

The ATO is increasing its audit activity on rental property owners. The focus is on a number of areas including the distinction between a repair and renovation, claiming deductions for a property that is not genuinely available for rent and apportioning costs where the property is only rented for part of a year.

They also have an ongoing 'data matching project' that is systemically checking sales in every state since 1 July 1999. The data will be checked against the ATO's Capital Gains, GST and Income Tax Records.

We recommend the software program Rent Manager to clients because it lets you record all your rental income, expenses and cost base information. The property analysis section will also let you prepare a 10 year cashflow forecast plus taxable income and equity projections.

Bought a "Luxury" Car Lately?

Tax investigators are about to pounce on drivers of luxury cars who declare little or no income in their tax returns. The investigation will focus on luxury vehicles purchased in the last two financial years and deals of 290,000 separate vehicle transactions will be reviewed. In a major operation the Tax Office said it would collect data on the sales of new and second-hand vehicles costing more than \$57,009 between 1 July 2005 and 30 June 2007.

The Tax office will use data collected from state and territory motor vehicle registries and cross match it against taxpayer records. The project would involve about 600,000 people nationally as it will also target people who have purchased other luxury items such as planes, race horses and boats.

The investigation will target people who declare little income, but whose acquisition of assets would indicate "conspicuous wealth". A Tax Office statement said, "In this instance, the indication of conspicuous wealth is the purchase or acquisition of a motor vehicle with a sale price or valuation in excess of the luxury car tax limit.

The move by the ATO is also expected to flush out anyone who has not lodged tax returns and they will also target people who try to conceal their ownership of expensive cars – for example, by registering them in the names of other people. It is unclear how many individuals will be investigated, or how many prosecutions are expected but a previous 'pilot' investigation revealed nearly 35% of taxpayers targeted had at least one outstanding tax return between 1997 and 2005. "Early indications are that the risk of omitted income in identified cases is substantial," it said.

The Federal Chamber of Automotive Industries says about 100,000 luxury vehicles were sold last year. About 70% of these were priced between \$57,000 and \$85,000, a range that includes high-end 'people movers' such as the Volkswagen Multivan and more expensive versions of the Holden Commodore and Ford Falcon.

Car Expenses rates per Kilometre for 2007/08

The cents per kilometre rates for car expenses for the year ending 30 June 2008 are listed below.

These rates are applicable to claims where the vehicle has travelled a maximum of 5,000 business kilometres during the financial year.

These rates are also used to calculate the taxable value of certain fringe benefits which were provided during the FBT year ending 31 March 2008.

The motor vehicle cost depreciation limit for 2007/08 remains at \$57,123 (\$57,180 in 2008/09).

| Car Size | Rate |
|---|------------|
| Small car (non-rotary engine not exceeding 160cc, or rotary engine not exceeding 800cc) | 58c per km |
| Medium car (non-rotary engine 1601cc – 2600cc, or rotary engine 801cc – 1300cc) | 69c per km |
| Large car (non-rotary engine 2601cc and above, or rotary engine 1301cc and above) | 70c per km |

Thinking of Financing Cars or Equipment

There are a number of different ways to finance the purchase of vehicles and equipment for your business including leasing, chattel mortgage and commercial hire purchase.

Each finance option has different taxation implications and a varying impact on your profit and cashflow. There are also important GST and FBT considerations.

As your accountant we are committed to saving you money and providing you with the most tax effective advice. Where possible, this includes claiming back any upfront GST when you lodge your next BAS.

When you next want to finance a motor vehicle, truck, piece or equipment or shop fit out simply call us on **(02) 9868 3900** as we have access to a vehicle and equipment service that provides:

- Up to 6 quotes from a panel of lenders who provide wholesale rates of finance that guarantee highly competitive quotes for our clients.
- Access to Fleet Discounts that could save you thousands of dollars off the price of new cars and light commercial vehicles.
- A relatively simple application process... we know who you are and your financial position which enables us to seek quick approval.



2008 Financial Year End Tax Planning

Some tax planning issues that can be addressed prior to the end of the financial year include:

- Recognition of Incurred/Accrued Expenditure
- Write Off of Bad Debts (review debtors at 30 June 2008, to determine recoverability)
- Prepayments (NB Rules apply to restrict deductibility in some instances)
- Capital Asset Sales (review of potential to incur capital losses prior to year end, to offset capital gains derived during the financial year)
- Superannuation Contributions (pay before June 30)
- Salary Packaging (NB salary sacrifice arrangements must be effected prior to revising employee/director remuneration)
- Trading Stock revaluation

If you require further clarification as to the tax implications of your activities for the year ended 30 June 2008, we suggest that you contact our office immediately.

Self Managed Super Funds

Do-it-yourself Superannuation via a Self Managed Superannuation Fund (SMSF) is an increasingly popular choice for investors. Latest research suggests there are now more than 360,000 SMSF's in Australia.

The three key reasons for establishing your own SMSF are control, flexibility and investment choice. There are obvious benefits in establishing a SMSF but running your own fund is complex and there are many other considerations including your investment strategy, the administration of your fund and compliance with superannuation and other laws.

A SMSF is basically a superannuation fund with one to four members who are also trustees responsible for the investment strategy and administration of the fund within strict Australian Tax Office guidelines.

In assessing whether an SMSF is suitable for you we prompt the following questions:

- Do you have a substantial amount in personal superannuation? (as a guide, a minimum of \$220,000 would be required due to establishment costs and ongoing management

- and audit fees).
- Do you enjoy learning about your investments and have the time to regularly review their performance?
- Would you like increased flexibility in estate planning, more investment options and greater responsibility for your own retirement funds?

If you answered 'yes' to these questions, you may be suited to having your own SMSF.

Whilst there are potentially great benefits, having a Self Managed Super Fund requires time, effort and discipline plus they also attract extra ongoing fees including annual audit fees.

Call our office to discuss your superannuation options including establishment of your own SMSF.

SMSF Statistics

- The growth in SMSFs has been phenomenal over the past decade and by July 2007 more than 690,000 Australians were members of a SMSF.
- On average, each SMSF holds around \$800,000
- 47,000 funds were established in the past year
- The total assets in SMSF have increased sevenfold in the last ten years.



Some great news for the self-employed

Government Co-Contribution

The self-employed can now save for retirement with the same benefits given to other working Australians. This is thanks to the extension of the Government co-contribution scheme to self-employed people.

Find out if you're eligible.

If 10% or more of your annual income comes from 'active' income – that is, running a business, eligible employment or a combination of both, then you could be eligible to receive the Government co-contribution into your super fund.

If you are eligible, there is no extra paperwork because the payment is automatically calculated by the Australian Tax Office (ATO) after you complete your tax return.

In addition, for businesses with low profit margins and low incomes - the ATO only works out what percent of your income is 'active', and they ignore your business income deductions to determine how much of the Government contribution you could receive.

There are some conditions that must be met, for example, your annual total income must be less than \$58,980 and you must be under the age of 71 at the end of the income year. Contact us as soon as possible to discuss your eligibility and to see how you can benefit from these opportunities and others.

| | | 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 | |

Self Employed Tax Deductible Contributions

From 1 July 2008 the limits for deductible contributions have changed:

- ▶ Individuals under age 50 \$50,000 indexed to AWOTE each year by \$5,000 increments – now fully tax deductible*
- ▶ Individuals 50 and over \$100,000 – not indexed and reduces to regular limit in the 2011/2012 financial year

- Deductible contributions to superannuation (now known as personal concessional contributions) are fully tax deductible up to the limits above. Previously for self employed only the first \$5,000 was fully tax deductible and the remaining 75% deductible.

Tax deductible contributions are a very effective way of reducing your personal income tax liability and at the same time saving in a concessional tax environment for your future and retirement.

The eligibility to claim a tax deduction allows 2 main groups of people to make personal concessional contributions:

- ▶ Those who are substantially self-employed
- ▶ Those who are unemployed / retired

Those who have received less than 10% of their assessable income and reportable fringe benefits for the financial year from eligible employment*. This is also known as "the 10% rule".

* Eligible employment includes holding an office or appointment, performing functions or duties, engaging in any work, or the doing of any acts or things that results in the person being treated as an employee for the purposes of superannuation guarantee.

The 10% rule provides opportunity for those to contribute who have retired or substantially retired, to claim a tax deduction to superannuation, should you be considering selling assets that may have a capital gains tax liability.

There are many valuable and tax effective strategies that Christine can assist with in regard to superannuation and retirement planning. To make an appointment please phone Christine on 02 9868 3900.

2008 Tax Return Client Checklist

Individual Tax Returns

Income

- Gross Salary, Wages, Allowances, Benefits, Earnings, Tips and Directors Fees.
- Income from Business Activities.
- PAYG Payment Summaries
- Details of any non-cash benefits received.
- Lump sum and termination payments. All documentation should be provided including an ETP Payment Summary from the employer or fund.
- Government Social Security payments, including pensions, unemployment and sickness benefits.
- Details of any CGT asset sales (e.g. shares and real estate). Please include dates of, and costs associated with, acquisition and disposal. (You can save tax if you qualify for the variety of CGT concessions).
- Annuities, including allocated pensions.
- Income from trusts and partnerships. Statements of distribution should be provided where appropriate.
- Rental income
- Interest and dividends received and any tax deducted. Include details of franked dividends.
- Foreign source (employment and pension) income and details of any foreign tax credits.

Deductions

- Investment and property expenses (carefully detail interest claims)
- Subscriptions (not including sporting or social clubs).
- Employment related Expenditure such as work-related motor vehicle, self-education, protective clothing and uniform expenses.
- Donations of \$2 and over
- For self-employed persons details of any superannuation contributions made.
- Tax Agent Fees and other accounting/tax audit fees.

- Special deductions (Australian films, investment shelters and agribusiness-type schemes).
- Bank fees (where the credit or deposit represents assessable income).
- Unrecouped prior year losses.

Rebates

- Details of out of pocket Child Care expenses, being fees paid for approved child care less any Child Care Benefit received.
 - Details of private health insurance, unless your premium is net of the rebate.
 - Details of superannuation contributions where no tax deduction can be claimed.
 - Any changes in dependants (income of spouse should be provided).
 - Details of any income received in a lump sum which was accrued in earlier income years (e.g. assessable pensions).
 - Net family medical expenses if they exceed \$1500 in total.
 - HECS Debt details.
- Note: Taxpayers with a dependant child (under 21), or qualifying dependant student, should check to see if they are eligible for Family Tax Assistance.

8 Most Common Errors in Tax Returns

- Omitting Interest Income
- Incorrect or Omitted Dividend Imputation Credits
- Capital Gains/Losses are Incorrect or Omitted
- Understating Income
- Home Office Expenses
- Depreciation on Rental Property Fixtures and Fittings
- Depreciation on Income Producing Buildings
- Borrowing Costs associated with Negative Gearing

Companies, Partnerships, Trusts and Other Business

Income

- Trading income.
- Other income (e.g. Rent, Interest, Royalties).
- Stock on Hand (and basis of valuation) – note any obsolete stock.
- Work-in-Progress.
- Primary Producer subsidies (if assessable).
- Details of CGT assets (e.g. shares and real estate) sold, including dates of, and costs associated with, acquisition and disposal.
- Dividends, including details of franking credits.
- Income from foreign sources, including details of foreign taxes paid.

Deductions

- Repairs and maintenance.
- Salaries, including fringe benefits.
- Fringe benefits tax paid.
- Rates, land taxes and insurance premiums.
- Advertising expenses.
- Interest on borrowed monies.
- Deductions relating to foreign source income.
- Prepaid expenses (subject to transitional rules)
- Retirement payments and golden handshakes.
- Bad debts actually written off during the year.
- Donations of \$2 and over depending on the recipient.
- Commissions.
- Legal expenses.
- Lease documents for motor vehicles, premises and equipment.
- Losses of previous years (or intragroup transfers).
- Superannuation contributions.
- Subscriptions.

- Car expenses (remember to include petrol, repairs and parking and maintain a log book where necessary).
- Tax agent's fees and other accounting and tax audit fees.
- Royalties paid.
- Details of the purpose and destination of any interstate or overseas trip. Expenses must be fully documented where travel involves at least one night away from home. Travel diaries should be included where travel exceeds five nights.
- Research and development expenditure.
- Bank fees (where the credit or deposit represents assessable income).

Liabilities

- New loans taken out during the year and their purpose, including any new lease or chattel mortgage agreements.
- Statements from the lending authority detailing the opening and closing balances of existing loans during the financial year.
- Provisions for long service and annual leave.
- Creditors at June 30
- Details of loan accounts to directors, shareholders, beneficiaries and partners.
- Accrued expenses (e.g. audit fees, interest payments).
- Commercial debts forgiven.

Assets

- Details of depreciable assets acquired and/or disposed of during this income year, including:
 - _ type of asset;
 - _ date of acquisition
 - _ consideration received/paid
- Lease commitments.
- Debtors at June 30
- Commercial debts forgiven.

Additional Information Required

- Franking account details/movements
- Overseas transactions, exchange gains/losses.
- Private companies – remuneration or loans to directors, shareholders and their relatives.
- Changes to the capital of the company.
- Whether family trust elections have been made in relation to trusts.

Note: To ensure that you obtain the maximum deductions to which you are entitled and in consideration of the penalty provisions, FULL DETAILS of any claim should be provided and supporting documentation made available. For employee taxpayers and for travel and motor vehicle claims by self-employed taxpayers, documentation must be a receipt, tax invoice or similar document which contains certain details. For other taxpayers, documentation may comprise receipts, dockets, diary notations or reasonable and supporting estimates.



IMPORTANT DISCLAIMER: This newsletter does not constitute advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of these areas. This newsletter is issued as a helpful guide to clients and for their private information. It should be regarded as confidential and not be made available to any person without our prior approval.

Quote of the Quarter:

“Every path has its puddle”.

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