

# Newsletter



PROFESSIONAL ACCOUNTING AND BUSINESS CONSULTANTS

■ MAY/JUNE 2011

Welcome to the May/June Edition of our newsletter. We are headed for some busy months ahead as noted in our Tax Diary below.

## Current Tax Diary

### 21 June 2011

May 2011 Monthly Activity Statements due date for lodgment and payment (if required)

### 30 June 2011

Last day of the 2011 Financial Year

### 1 July 2011

First day of the 2012 Financial Year

### 14 July 2011

PAYG Payment Summaries to be issued to arms length employees

### 21 July 2011

Payroll Tax Returns due to be lodged and payable

### 28 July 2011

June 2011 Superannuation guarantee contributions due date for payment

### 14 August 2011

PAYG Payment Summary Report due to be lodged for clients who have arms length employees

### 21 August 2011

Monthly Activity Statements due date for lodgment and payment (if required)

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# Directors Beware!!

**You are now at risk of personal liability if you do not meet your employees super obligations!**

*The Federal Budget announced that there would be an increased emphasis on tax compliance with the ATO now being able to issue director penalty notices for outstanding super obligations from 1 July 2011.*

Previously, a Director Penalty Notice was issued on outstanding PAYG Withholding obligations and a director/s would have 21 days from the date of the notice to comply with the notice by either meeting the liability, organising an arrangement to pay the outstanding debt, place the company into administration or have the company wound up.

Now, we will see that the ATO will not be providing a 21 day notice period and will be able to begin recovery action as soon as a director penalty notice is issued.

It is important to ensure that your super obligations and PAYG obligations are met on time and if any tax obligations are not likely to be met on time, please contact your client manager sooner rather than later to allow our office to communicate with the ATO to arrange a plan to tackle any outstanding debt.

## Is Your Bookkeeper Covered?

If you are using a bookkeeper (be they an individual, partnership or company) to prepare your Business Activity Statements, they must by law be a registered BAS agent with the Tax Practitioners Board if they:-

- prepare your BAS and sign it on your behalf
- give you advice about a BAS provision that you can reasonably be expected to rely upon to satisfy your obligations.
- receive a fee or reward for their service
- this even includes completing monthly IAS statements for PAYG withholding obligations

Note that paid employees providing BAS services to or on behalf of their employers do not need to be registered.

As of 1 July 2011 all BAS agents will be required to have Professional Indemnity Insurance (PII) cover that meets the Boards minimum requirements. It would be worth while asking your bookkeeper to provide you with a certificate of currency to confirm that they have the correct cover.

If you or your bookkeeper would like further information, please contact our office or visit [www.tpb.gov.au](http://www.tpb.gov.au)

## Cous's CORNER...



### Ain't it the Truth!!

A woman goes to the doctor for her yearly physical.

The nurse starts with certain basic items.

"How much do you weigh?" she asks.

"115" she says.

The nurse puts her on the scales.

It turns out her weight is 140.

The nurse asks, "Your height?"

"5 foot 8," she says.

The nurse checks and sees that she only measures 5'5".

She then takes her blood pressure and tells the woman it is very high.

"Of course it's high!" she screams,

"When I came in here I was tall and slender!

Now I'm short and fat!"

*Last Issues solution:*

*Mr Hops – Green 4<sup>th</sup>*

*Jumper – Yellow 2<sup>nd</sup>*

*Long Ears – Red 1<sup>st</sup>*

*Mrs Littlenose – Blue 3<sup>rd</sup>*

## Freaky Facts...

Did you know....

Your foot is the same length as your forearm?

The skin of the average woman weighs 3 kilograms, while that of the average man weighs 5 kilograms?

Human fingernails grow nearly 4 times faster than toenails?

# Budget Update

## May 2011

As another budget rolls by, there were no world-shattering surprises in this year's budget. There were plenty of rumours going around that the capital gains tax discount would be scrapped or that taxpayers on Superannuation Pensions would once again be subject to tax. Thankfully neither of these changes were in the budget.

Here is a brief outline of the important changes that did appear:-

### *Reduction in the minimum Superannuation Pensions in 2011/12*

As has been the case for the last few tax years since the global financial crisis began, the ATO have once again extended the reduction in the minimum pension required to be taken. This is to give those taking a pension the option of leaving more funds in Superannuation whilst the asset values continue to be depleted. However, the reduction will only be 25% of the standard minimum pension for the 2011/12 year, returning back to normal rates in 2012/13.

### *Low Income Tax Offset restriction for minors*

From the 1<sup>st</sup> July 2011 the low income tax offset will no longer be available to minors on their non-work income. This will have an impact on those that distribute to kids through Family Trusts as it effectively reduces these types of distributions back to \$416 per year.

### *Reduction in HECS discounts*

From the 1<sup>st</sup> January 2012 there will be a reduction in the discounts applied to HECS repayments. The upfront payment discount will reduce from 20% to 10% and the discount on voluntary payments of \$500 or more will reduce from 10% to 5%. Doesn't the Government want their debts repaid?

### *Increase in the SMSF levy*

The ATO are increasing the annual levy on SMSFs from \$150 to \$180 for the 2011 and future tax years.

### *Higher Superannuation contribution caps for the over 50s*

From the 1<sup>st</sup> July 2012 the government will allow eligible individuals that are over 50 to have a concessional contribution cap of \$50,000 if their Superannuation balance is below \$500,000. From that date the maximum concessional cap will be reduced to \$25,000 for all other taxpayers, so this will allow eligible individuals to concessionally contribute a higher amount.

### *Employer Superannuation payments to be reported on payslips*

From the 1<sup>st</sup> July 2012 employers will be required to include details of employer superannuation payments made for the employee. In addition, each quarter the employer and employee will receive notification from their relevant superannuation funds if Superannuation payments have ceased.

### *Accelerated depreciation on motor vehicles for Small Business Entities*

From the 1<sup>st</sup> July 2012 there will be an upfront tax deduction on the first \$5,000 of any motor vehicle purchased for business. The balance of the purchase price will be depreciated as normal in the General Depreciation Pool. Having spoken to some Motor Vehicle dealers, they are wondering who will be buying cars in June 2012.

### *Immediate write off in Small Business Entities*

On top of the abovementioned write-off on motor vehicles, there will also be an immediate write-off for assets purchased for less than \$5,000 from the 1<sup>st</sup> July 2012.

### *Company tax rate reduction to 29%*

From the 2012/13 year, Small Business Entities will have a reduced company tax rate of 29%.

### *Car Fringe Benefit rule change*

The current statutory formula used for cars on a sliding scale will be gradually replaced by a single rate of 20% no matter how many kilometers are traveled during the FBT year. The first changes occur to standardise the rates on new cars purchased from budget night in May 2011, with all categories to be the standard 20% from the 1<sup>st</sup> April 2014. When buying a new car, please consult our office first to ensure the contract is structured in the most tax efficient manner.

### *Flood and cyclone reconstruction levy*

For the 2011/12 tax year only, the government will be applying a levy to taxpayers with a taxable income above \$50,000. For those earning between \$50,001 and \$100,000 a flat 0.5% levy will be applied. A 1% levy will be applied to those earning above \$100,000. Exemptions apply to those that have been affected by the natural disasters and received relief payments as a result.

## ASIC – Fee Change

At Casey Partners, we have maintained a fixed fee of \$170.00 plus GST for the handling of your ASIC affairs as registered agent since the inception of the annual review process.

This fee covers the data download from ASIC of the review, preparation of solvency statement and minor changes and update to your ASIC/or company records as required throughout the year and at the review. As there are significant penalties associated with late lodgment of changes and penalties for late payment of ASIC fees, ASIC matters are best handled by our office to ensure your company complies with the requirements and avoids any unnecessary costs.

From the 1<sup>st</sup> of July, we will be increasing our standard fee to \$250.00 plus GST. We note that the price remains very competitive to alternatives, and ensures your company is fully compliant with its ASIC responsibilities.

## Meet the Team



### Peta Iliopoulos

#### Role at Casey Partners:

Peta works as a Senior accountant with 13 years accounting & taxation experience. Specialising in MYOB software, retail and farming industries (previously owned two retail businesses and a farm prior to moving to Melbourne in 2008).

A big congratulations goes out to Peta who has had her second child, Sophie Elizabeth Wentworth Iliopoulos born on Tuesday, 7 June 2011. The bub is 51 cm and weighs in at 7 pound 13 oz. We hear Peta and the bub are both doing well and her husband Elias and son George are both excited with the new addition to the family. Peta will be on maternity leave from June to Mid October. Any clients with queries can contact Katherine Hose in her absence.

**Favourite TV Show:** Grey's Anatomy

**Favourite Food:** Thai and Chocolate (not together)

**Worst food:** Brussel Sprouts

**Family:** Hubby – Elias of 10yrs, George 3 and newborn Sophie

**Pets:** Cat (Yuri), 2 dogs (Boof & Heidi), Lots of Fish, Lots of Birds, Chooks

**Hobbies/Interests:** Cooking, going out on our boat fishing, spending time with friends and family



## Casey Partners 17<sup>th</sup> Annual Make A Wish Charity Golf Day

A big thank you to everyone who participated, sponsored and donated to the Casey Partners Charity Golf Day which was a huge success.

The weather couldn't have been better and we managed to raise over \$32,000 which will go directly to the Make A Wish Foundation.

We have now raised over \$400,000 for the Make A Wish Foundation.

The 2011 winners were Andrew McKenzie Smith, Jon Balantyne, Andrew Kloprogge and John Gahan (see below). Runners up were Scott Phillips from Cardinia Homes, Michael Holland, Beau Wheeler and Glen Phillips.



# Tax Planning

*With June 30 fast approaching, it's time to look at some ways to soften the blow at tax time. Whether you are a small, medium or large business owner the tax saving measures below might be of use to you this financial year and in those to come. Salary and wage earners may also find some handy tips.*

The introduction of the "one-off" Flood Levy by the Federal Government may impact the tax saving strategies undertaken in the 2011 financial year. For example: all types of businesses can reduce their assessable income by deferring the time in which income is earned until the next financial year. However, deferral of income to later years may be less attractive in the 2011 financial year due to the introduction of the Flood Levy as a once-off in the 2012 year. For individuals with a taxable income of \$50,000-\$100,000 the levy will be calculated at 0.5% of your taxable income. The levy increases to 1% if your taxable income is over \$100,000.

You could consider salary sacrificing some of your before tax income into super in the 2012 financial year. This should be arranged with your employer prior to the beginning of the 2012 financial year. This will decrease your assessable income and thus reduce the amount of income tax & Flood Levy you will be liable to pay. However, be wary that the amount sacrificed is added to your 9% super guarantee amounts paid by your employer. This may impact on family tax and Centrelink calculations and may lead to Excess Superannuation Contributions if you contribute over the allowable limit.

There are also options for reducing your assessable income for the 2011 financial year. This can be done by bringing forward some tax deductions.

The following are examples of deductions that can be brought forward:-

Firstly, look through your Accounts Receivable list. Any amounts that you know will never be recovered can be written off as a bad debt deduction. This can occur so long as the debt has been included as assessable income, you have taken all measures to recover the debt and the write off has occurred before the end of the financial year. So it's important that this is done on or before June 30 to get the tax deduction.

Superannuation contributions are deductible to the extent that they have been paid by the employer. By paying your June superannuation liability before June 30 you bring the deduction into the 2011 tax year. This liability would otherwise be payable by July 28, so bringing this payment forward by a month brings forward the tax deduction by 12 months.

Your superannuation expense can be increased by contributing additional funds into your personal superannuation fund up to the applicable concessional cap of \$25,000 for individuals under 50 and \$50,000 for individuals over 50.

If you are a Small Business Entity (SBE), a business which earns less than \$2 million in revenue, you can make use of the SBE concessions. SBEs can bring forward deductions by prepaying expenses allowable for a tax deduction, such as insurances and advertising. As an SBE you can also get an immediate write-off for assets costing less than \$1,000, so if there are some small items you require it may be worth paying for them before June 30.

Other tips to help at June 30:-

- **Education Tax Refund:** To claim you must be eligible for Family Tax Benefit Part A. The maximum offset against your tax liability is 50% on eligible education expenses incurred during the financial year up to a threshold of \$794 per primary school student and \$1,588 per secondary school student. Eligible expenses include: home computers & laptops, computer equipment & repairs, home internet expenses, school textbooks, stationary, educational software with school uniforms included from the 2012 financial year.
- **Private Health Insurance:** You will be liable for an extra 1% tax on your taxable income (plus any reportable fringe benefits) if you do not have the appropriate private health insurance and your adjusted taxable income exceeds \$73,000 or \$146,000 for couples (plus \$1,500 for each dependant).
- **Medical Expenses:** Maintain those Medicare receipts and other medical receipts; a tax offset is available for an amount of \$0.20 for every dollar over the \$2,000 threshold.
- **Income Protection Insurance:** A great way to protect yourself and your family in case of an accident, on top of that the premiums are generally tax deductible.
- **Spouse Super Co-Contribution:** A tax offset that is allowable for superannuation contributions you pay on behalf of your spouse. You can claim a tax offset of 18% for contributions up to a \$3,000 cap if your spouse's adjusted taxable income is less than \$10,800, phased out at \$13,800.
- **Donations:** Keep those donation receipts. A deduction is generally allowable for donations over \$2 to deductible gift recipients.

# Managing Cashflow

## - Have your business cashflow ready for the 2012 Financial Year

*A business can be profitable and still run into trouble due to cash flow issues. The first step to improving cash flow management is to not only know your profit and loss statement, but to know your business's balance sheet.*

To get a sound projection of inflows and outflows, you must start with a comprehensive balance sheet that has all the detail, from stock on hand to debtors and creditors as well as outstanding loans you may have which will attract interest payments. This is something that we can help you with, but the person who knows your business better than anyone else is YOU!

Business owners should update and review their business's cash flow projections on a regular basis using conservative revenue and expense estimates. This way you can keep yourself proactive particularly if you hit an unexpected cash flow shortage. You never know what unexpected things could occur. That piece of machinery has just broken down therefore reducing productivity and it is going to cost a significant amount to fix, or that large job you did sometime ago and the debtor is taking his time to get the cash to you.

There are ways in which you can improve your cash flow and

procedures leading up to the next financial year.

1. Put together a list of conservative projections and revenue and expenses for the year ahead and see whether you think there will be cash shortfalls.
2. Are there debtors outstanding which are creeping into the 60-90 plus days that can be collected? Do you need to review your credit terms with certain debtors? Can your business provide a discount for debtors who pay on time?
3. Do you have any creditors that are starting to creep into the 60-90 plus days? Communication is the key with your creditors to ensure you are keeping them in the know and not avoiding them should cashflow be tight. How would you expect to be treated from a debtor you have which is a slow payer? Remember to stick to the terms set out by your creditors to ensure payments are made on time to avoid penalties. Further to this, remember to utilise the terms that you have been given by your creditors.
4. What interest repayments do you currently have? Is there room in your business to look at

additional funding to help through the slow periods of the financial year? If your business is going through a growth phase, it is important to ensure that you have additional funding to meet that growth should you wish to expand. Although your inflows are increasing from additional work, generally speaking so will your outflows (i.e. Suppliers, Wages, Superannuation, Tax Liabilities etc.)

5. Getting your information to your client managers in a timely manner. Nobody likes to be hit with a sudden tax liability so by having your information for the completion of BAS Returns and Income Tax Returns in a timely manner will allow us to advise you of an upcoming tax liability and therefore giving you the time necessary to budget for these outflows, particularly before lodgement due dates and payment dates. Remember, fines and penalties from the ATO are an unnecessary costs, which you receive no tax deduction.

It is also important to ensure that you budget yourself personally so that you are not taking too much money out of your business.

Should you require any assistance in preparing a cashflow analysis, please contact your client manager.

## Borrowing within an SMSF to purchase property

The financial press has given much recent coverage to a 'new' option for wealth creation – establishing a self-managed superannuation fund (SMSF) and borrowing to invest in direct property



Before jumping ahead and setting up an SMSF to buy an investment property, you must be aware this area involves complex legislation and rules, and specific financial advice (along with accounting and legal advice), is required to ensure a successfully implemented strategy.

### The attraction

Common impediments facing people wishing to build a direct property portfolio include accessing a deposit<sup>1</sup>, the ability to generate surplus monthly cash flow (for negatively geared property), and the ability to borrow from a bank. Using an SMSF can overcome these problems. In fact, subject to the trust deed and investment strategy of the fund, there are no restrictions on which asset class the funds can be invested in. An SMSF can also borrow to leverage the investment, provided the loan is a limited recourse loan for investment purposes, through a trust<sup>2</sup>, as explained below.

### How does borrowing to purchase property in your SMSF actually work?

The favoured trust for a limited recourse loan is an instalment trust. An instalment trust allows the SMSF to purchase a property, repaying the limited recourse loan by instalment, while the asset is held in the trust which is separate from the SMSF for the life of the loan. If the SMSF defaults on the loan, then the lender's rights are limited to the property in the trust only, while the fund's loss is limited to the equity in the property and all instalment payments made prior to the default.<sup>3</sup>

### What types of property can your SMSF purchase?

#### Residential

SMSFs are able to purchase any residential property at public auction or a private sale, provided it is not purchased from a related party. It cannot be transferred in specie into an SMSF from related-party ownership.

The purchase of direct property must be for investment purposes only and you cannot receive any other benefit from it, so buying a holiday house with your SMSF for you or your family is strictly prohibited.

#### Business real property

The rules for business real property are different to that of residential property. Business real property includes commercial properties, offices, warehouses and farms. Like residential property it can be bought at auction or private sale.

However, unlike residential property, it can be transferred in specie into an SMSF by related parties at market value. Business owners are also able to buy their commercial premises, and pay arm's length rental to their SMSF.

There are taxation benefits from owning business real property within an SMSF, particularly if that property was initially owned outside of superannuation, and/or you are a business owner. Each individual case must be assessed on its merits of course, and key rules still must be adhered to including contribution limits and the work test, as well as taking account of capital gains tax implications.

### Appropriate diversification

Depending on the total funds available within your SMSF, your ability to diversify with direct property may be limited. Lack of diversification can increase the risk to your retirement plans if your property investment doesn't perform in line with expectations. It is important to remember even 'blue chip' property prices can lose value. Property values in the USA, UK and Ireland have all decreased by varying degrees over 2008–2010, reminding us that past performance in any market, including property, may not repeat itself in the future. The lesson is... be careful.

### Is it right for you now, or in the future?

While members of an SMSF are working to accumulate funds, assets that produce little income for the SMSF may not present any immediate problems. However, in retirement, income (and therefore liquidity), is of paramount importance when specified withdrawal amounts of income are required by law. For example, an 80-year-old member must withdraw 7 per cent of their SMSF capital each year, rising to 9 per cent from age 85.<sup>4</sup>

A significant concern with residential property is that it often produces less than a 5 per cent net rental yield (after expenses)<sup>5</sup> and consequently insufficient retirement income. Because property is not divisible and can't be sold off 'bit by bit', unlike units in a managed fund, accessing liquid funds often results in a forced sale.

### Next steps

When buying property through an SMSF you should always consider the quality of the investment with a clear understanding of the associated risks. An objective approach rather than decisions based on emotion will always serve you best in the long run.

Please feel free to contact us to discuss whether this strategy is appropriate for you.

<sup>1</sup> Generally, a 20% deposit is required to avoid mortgage insurance.

<sup>2</sup> The trust deed of the SMSF must allow the trustee to borrow before any limited recourse borrowing arrangement can be entered into.

<sup>3</sup> Source: Adviser Tech: SMSF/Borrowing within SMSF Technical Bulletin.

<sup>4</sup> [www.ato.gov.au](http://www.ato.gov.au) (NB: this amount represents the amount prior to the temporary halving of income stream minimums post GFC to give relief to members wishing to preserve their balances). In the long term, minimum percentage investors should consider with respect to yearly liquidity requirements for their SMSF.

<sup>5</sup> [www.rpdata.com/press\\_releases/australia](http://www.rpdata.com/press_releases/australia)