



# Orr, Martin & Waters



Chartered Accountants  
Newsletter

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## 2010 Budget Highlights

The Federal Budget delivered on 11<sup>th</sup> May contained very few measures for commencement in the 2010/11 tax year. In summary:

### For individuals

- Implementing the third tranche of personal tax cuts as originally announced by the previous government.
- An increase in the low income tax offset from \$1,350 to \$1,500 and increases in the low income threshold for the Medicare Levy.
- Increase in the net medical expenses tax offset threshold from \$1,500 to \$2,000 (and to be indexed annually).
- The out-of-pocket childcare expenses rebate to be capped at 50% of costs up to \$7,500.

### For business- GST

- More resources provided to the ATO to undertake a GST compliance program to detect under-reporting of GST, fraudulent GST refunds and non-payment of debts.
- Proposed legislation to amend the GST treatment of hire purchase transactions so as to remove the disincentive for taxpayers reporting on a cash basis from entering into hire purchase arrangements.

- Technical changes to CGT rules to make it easier for listed companies to qualify for rollover relief on takeovers and mergers.

The government has also announced that it will implement a number of tax measures in the next few years as recommended in the Henry review, namely:

- Reducing the company tax rate to 28%.
- Providing businesses with an immediate write-off of assets costing up to \$5,000 and simplifying the capital allowance regime.
- Allowing individual taxpayers to claim \$1,000 in work expenses without substantiation (\$500 in the first year).
- Individuals with “simple” tax affairs could receive and accept a pre-filled tax return/assessment from the ATO.
- Reduced tax rate applicable to the first \$1,000 of investment interest earned.

## Tax Planning: are you ready for year-end?

By the time you read this newsletter, it will be only a few weeks before the end of another financial year which means it is time to prepare for your next tax return.

If you are a business operator, there are many things to consider, such as:

- Has the business made a profit this year?
- If so, have you paid enough tax towards the total tax?
- Have you paid superannuation for employees equal to 9% of their salaries?



- What about your own super: are you able to make extra contributions and is it desirable to do so?
- If you have stock, have you scheduled a stocktake for 30<sup>th</sup> June?
- Are there unrecoverable debts that can be written off?
- Do you have enough cash flow to meet any 30<sup>th</sup> June obligations?

*Unfortunately, a number of tax strategies arising from these questions have to be actioned by 30<sup>th</sup> June, otherwise it is too late. So if you haven't answered "Yes" to most of these questions or you just "don't know", then give us a call today to discuss your tax planning requirements.*

### **Bamford's Case: The final verdict on Trust Distributions**

Arising from the High Court's decision in the *Bamford* case, is a view on how to distribute trust income to beneficiaries where the accounting and taxable incomes are different.

The court has held that the proportionate method should be applied to distributing taxable income. That is, the beneficiaries are assigned a percentage of the total accounting income in any one year and then assessed on the same percentage of the trust's taxable income.

As a consequence, trust distribution minutes should now show distributions in percentage terms, rather than dollar value sums with a "balance" to one or more beneficiaries (the quantum method).

The High Court did not deal with how to distribute capital gains; however, the ATO has issued a practice statement on this issue which provide some guidance.

*We expect to be discussing the form and content of distribution minutes with trustees when preparing the 2009/10 tax returns. We are happy to discuss these issues with trustees before year-end if necessary. Call us today.*

### **Victorian Budget – Some Tax Relief at last!**

The Victorian Budget announced on 4<sup>th</sup> May has some reductions in business taxation.

There will be a small reduction in the payroll tax rate from 4.95% to 4.9% and workcover premiums will be cut by 3.5% over the next four years.

### **EMPLOYMENT NEWS**

#### **Super and PAYG Payment Summaries**

You may recall from last year's budget that the Government announced that personal superannuation contributions would be reported on Payment Summaries. The purpose being that salary sacrificed super could be included in incomes testing assessment for a range of government social security and tax benefits (e.g. the Baby Bonus, Senior's Tax offset, Medicare Levy Surcharge just to name a few).

Employers need to ensure that their payroll recording systems are able to prepare payment summaries with the correct superannuation information. For manual preparers, they should ensure that they can readily access information on salary sacrificed super for each employee.

### **BUSINESS NEWS**

#### **What's the deal with equipment financing?**

When seeking out the best financing arrangement for equipment purchases, clients often find it difficult to compare quotations due to differing interest rates and repayment terms. Here are a few things to consider:

1. Ensure the quote includes GST, otherwise the amount of repayments and/or residual will be understated.
2. Don't compare just on interest rate. Consider the term of the contract and the amount of any residual at the end.
3. There will be different taxation outcomes depending on the structure of the agreement.



*The amount and timing of the tax deductions and GST claims will differ depending on whether the contract is a hire purchase, chattel mortgage or finance lease arrangement. So, before you sign up for that next important business asset, have a quick chat to us first!*



## **SUPER NEWS**

### **ATO clarifies Contributions**

A recent tax ruling highlights the ATO views on what constitutes a super fund contribution, how it can be made, and its timing.

Generally, a contribution can take a number of forms, including:

- transfer of funds into the fund's bank account
- benefits rolled over from another fund or institution
- transferring an asset "in specie"
- forgiving a debt owed by the fund

A contribution is only deemed to have been made when it is actually received into the Fund's account. For example, where super has been transferred electronically (EFT), it is not recorded by the fund as received until it is actually credited to the bank account. Similarly, deposited cheques that are subsequently dishonoured will not be taken to be contributions.

*Please note that these timing rules are strictly enforced by the ATO. Therefore, it is important not to leave your year-end super contributions to the last minute; otherwise a slip up may upset some well made tax planning strategies!*

### **Super Reviews- real reform or just a few good ideas?**

A final report from the Cooper Review is due for release on 30<sup>th</sup> June and represents the third of the Government's investigations into Australia's taxation, financial services and superannuation.

Despite the numerous recommendations which directly or indirectly affect superannuation trustees, members and retirees, it appears that very few are to be implemented anytime soon. Here are some points of interest:

#### *The Rippoll Review:*

From 1<sup>st</sup> July 2012, the government intends to prevent promoters of financial products from paying commissions and other volume based incentives to financial advisors. They will also legislate to ensure there is greater clarity in fees charged by financial service providers to their customers.

#### *The Henry Review:*

Most of the Henry recommendations have either been rejected or not acted upon by the Government, however, it agrees with the recommendation to continue with the concessional contributions cap of \$50,000 for persons aged 50 and over (*it was to reduce to \$25,000 after 2012*). However this will only apply for members with super balances below \$500,000.

The Government will increase the employer super guarantee rate from 9% to 12% by 2020 and also ensure that individuals with adjusted taxable incomes below \$37,000 do not pay contributions tax. This will take the form of a contribution up to \$500 payable to the super fund. These two measures were not part of the Henry recommendations.

#### *The Cooper Review (interim report):*

Although the government response will not be known until after June, it may look favourably on interim recommendations to ban trailing commissions and entry fees into super products/funds. *Cooper* also suggests that a low cost fund (*MySuper*) be established as the default fund for employees to reduce the erosion of small balances by high fees.



## **SMSF Trustees with Enduring Power of Attorney**

The Tax Office has released a Ruling explaining the Commissioner's views on how a person who holds an enduring power of attorney in respect of a member of a self-managed superannuation fund (SMSF) can be a trustee in place of the member (or a director of the corporate trustee) for the purposes of the superannuation legislation.

The Tax Office considers that a legal personal representative (LPR) does not become a trustee of the fund (or a director of the corporate trustee) merely by virtue of holding an enduring power of attorney. Rather,

the LPR must be appointed as a trustee of the SMSF in accordance with the trust deed, the superannuation legislation and any other relevant legislation.

Furthermore, the Tax Office says a member must cease to be a trustee of the SMSF or a director of the corporate trustee, except where the LPR is appointed as an alternate director. The appointment must only empower the LPR to act as a director when the member is not performing those duties themselves. The member is not removed from the position of director in these circumstances.

### **Personal Income Tax Rates from 1<sup>st</sup> July 2010**

Taxable income (\$)	Tax payable (\$)
0 — 6,000	Nil
6,001 — 37,000	15% of excess over 6,000
37,001 — 80,000	4,650 + 30% of excess over 37,000
80,001 — 180,000	17,550 + 37% of excess over 80,000
180,001+	54,550 + 45% of excess over 180,000

## Calendar

21 <sup>st</sup> June	<b>Business Activity Statement – May 2010</b>
30 <sup>th</sup> June	<b>Last day to deposit super contributions for 2009/10</b>
14 <sup>th</sup> July	<b>Issue of PAYG Withholding Statements to employees</b>
21 <sup>st</sup> July	<b>Business Activity Statement – June 2010</b>
28 <sup>th</sup> July	<b>Business Activity Statement – April to June 2010</b>
21 <sup>st</sup> August	<b>Business Activity Statement – July 2010</b>

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## Happy 40TH Birthday!

Your Accountant's for 40  
Years!!!!  
But whose bean counting?

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