

MAXIMISE YOUR DEDUCTIONS IN TIME FOR 30 JUNE 2010

As the end of financial year approaches, I'd like to take this opportunity to remind you of some ways you can potentially improve your tax position before 30 June 2010.

Things you could consider:

Prepay interest on Investment Loans

If you have a Portfolio Loan, Margin Loan or Investment Home Loan you might consider prepaying 2010/2011 interest to offset some income. With some banks, by paying interest in advance you will receive a further discount of 0.20% off the interest rate. You can talk to Andrew Forsyth of our office to arrange the set up of the loan. You need to remember though that you have fixed the rate for at least one year. Therefore consideration needs to be made if you are considering selling the investment in the coming financial year.

Maximise your superannuation contributions

Now is the right time to check your contributions against the limits and ensure you maximise the benefits open to self-employed people and members of Self Managed Super Funds. For those aged under 50, the maximum concessional (deductible) contribution is \$25,000 per annum. For those over 50, the maximum concessional contribution is \$50,000 per annum. Please note that the above limits INCLUDE any Superannuation Guarantee Contributions made by your employer. Please ensure you give yourself plenty of time for the funds to get into your super fund. The payments is only recoded as a contribution this year if it is in your superannuation account this financial year.

Protect your income and reduce your tax

Speak to us about establishing an income protection policy before 30 June, pay the first years premium upfront, and you can claim a tax deduction this year. We can also show you how you may be able to make a tax saving by getting Life and Total and Permanent Disability insurance through a super plan. You may also be able to alter your premium payments to annual so that you can claim over a years worth of premiums.

Super Co-Contribution

The government will pay up to 100% of your after tax contributions to a complying superannuation fund as an additional contribution. From 1 July 2009, you will be eligible for the co-contribution if:

- Your total income is less than \$61,920
- 10% or more of total income for the year is from eligible employment, running a business or a combination of both;
- You are less than 71 years old on the last day of June 2010-05-25
- You do not hold an eligible temporary resident visa

Profit Forecasts

Having interim accounts done now so you are aware of what your estimated tax position is before 30 June puts you in a position to plan and manage your tax liability.

Debt Management

Ensure your debt facilities are structured so that available cash flows can be applied towards reduction of non-deductible (private) debt. Our lending manager Andrew Forsyth will be able to assist you with ensuring your loans are structured correctly.

Rental Properties

Ensure you have your quantity surveyors report detailing all depreciation and capital works claims for your properties.

THE LENDERS CORNER BY ANDREW FORSYTH

Given the many options for financing today and the current environment for lending monies I have set out below information that you may be asking yourself.

Choosing the right Loan for you:

Choosing a Home/Investment Loan can be a difficult decision given the variety of Banks available today. With over 15 different Banks to choose from, some questions you will be asking yourself are:

- What Interest rate option will I choose? fixed or variable
- Do I need a 100% offset account?
- Is redraw option suitable for me?
- Do I have to pay an annual loan package fee?
- Do I have to pay an establishment fee?
- What features and benefits do I really need and use with a Loan?
- Do I have to pay any ongoing Account Keeping Fee?

What lending criteria's are still available with the Bank's today:

With the recent Global Financial Crisis, Banks have changed the lending criteria's and are adopting more cautious guidelines to approving loans.

What will banks consider?

- Some Banks will Lend up to 95% of the value of the property when purchasing a property
- Some Banks will Lend up to 90% of the value of the property for refinancing
- Borrower's can have a 5% deposit and this does not need to be genuine saving over a period of time
- Some Lenders will use Overtime, Commission & Bonuses as income when calculating your maximum loan amount
- Borrower's can still consolidate multiple loans facilities into a Home Loan to reduce monthly loan repayments

If you are looking to buy a property, refinance your loan and just reviewing your current loan please give Andrew Forsyth a call on 3391 7566 and he would be happy to discuss your plans and review your current situation

If you would like to discuss your options in relation to purchasing property please give Andrew Forsyth a call and I would be happy to discuss your plans and lending options.

Winter 2010

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A warm welcome to the Perrier Ryan 2010 winter newsletter. As we fast approach the end of another financial year we find ourselves in yet another period of instability on the financial markets. It is now over 3 years since the sub-prime crisis emerged and we are still seeing its effects around the world. Australia has fortunately fared better than many countries around the world in the midst of this crisis and we all hope that will continue to be the case. Although once again it seems on the pages of every newspaper we find economists predicting financial Armageddon yet again. Perhaps a chance to consider the following 'The economy depends about as much on economists as the weather does on weather forecasters.'

TAX WISE INDIVIDUAL NEWS 2010

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MONEY IN YOUR POCKET

Personal tax rates

The following changes take effect from 1 July 2010 to the individual tax rates (the changes are in bold):

| Current Taxable Income (\$ p.a.) | Rate % |
|----------------------------------|--------|
| Nil to 6000 | 0 |
| 6001 to 35 000 | 15 |
| 35 001 to 80 000 | 30 |
| 80 001 to 180 000 | 38 |
| 180 001 plus | 45 |

| From July 2010 Taxable Income (\$ p.a.) | Rate % |
|--|-----------|
| Nil to 6000 | 0 |
| 6001 to 37 000 | 15 |
| 37 001 to 80 000 | 30 |
| 80 001 to 180 000 | 37 |
| 180 001 plus | 45 |

More for low income earners

From 1 July 2010: The Low Income Tax Offset (LITO) will increase to \$1500 per annum (compared with \$1350 in the previous year) giving a tax free income threshold of \$16 000 for taxpayers with incomes up to \$30 000 per annum in 2010 - 11 (compared with \$15 000 in the previous year). The LITO is no longer available once the taxpayer's income reaches \$67 500 in 2010 - 11.

ABN 88 022 099 098

TELEPHONE 3391 7566
FACSIMILE 3391 7726

contact@perrierryan.com.au

Level 1, 221 Logan Road
Woolloongabba QLD 4102

POSTAL: PO Box 1420
Coorparoo DC QLD 4151

www.perrierryan.com.au

Medicare levy threshold

With effect from 1 July 2009, the Government proposes to increase the low income Medicare levy threshold to:

- \$18 488 for a single person (up from \$17 794 for 2008 - 2009);
- \$31 196 for a family (up from \$30 025 for 2008 - 2009); and
- \$27 697 (up from \$25 299 for 2008 - 2009) for pensioners below the Age Pension Age (65 but increasing to 67 over the next 13 years).

FEDERAL BUDGET 2010 - 2011 ROUND-UP

In addition to the key changes outlined above, the following changes were also announced as part of the Federal Budget.

Optional standard deductions for work related expenses

From 1 July 2012 the Government will provide individual taxpayers with an optional standard deduction of \$500 in lieu of claiming work-related expenses and the cost of managing their tax affairs.

The standard deduction will be increased to \$1,000 from 1 July 2013.

NOTE

This measure is available to all taxpayers regardless of whether they have work related expenses or expenses related to managing their tax affairs. In other words – under the current proposal any taxpayer can claim the standard deduction.

No taxpayers will be disadvantaged. Taxpayers with expenses above the standard deduction will be able to continue to claim those expenses when lodging their tax return under the existing rules.

WHAT IF MY EXPENSES ARE GREATER THAN THE STANDARD DEDUCTION?

All taxpayers will have the option to lodge an income tax return and continue to claim all their deductible expenses rather than the standard deduction being offered by the Government.

50% tax discount for certain interest income

From 1 July 2011, the Government will provide individuals with a tax discount equal to 50% on up to \$1,000 of interest earned, including on deposits held with any bank, building society or credit union, as well as bonds, debentures or annuity products.

This means that for a person earning an average pre-tax interest rate of 6%, the discount would apply up to a savings balance of just over \$16,500.

This change will result in some individuals and families becoming eligible for transfer payments or eligible for a larger transfer payment, such as Family Tax Benefit, Baby Bonus, Child Care Benefit, Education Tax Refund, Commonwealth Seniors Health Card (CSHC) and the Pensioner Supplement (which is linked to eligibility for the CSHC).

HENRY REPORT - HIGHLIGHTS

The following are the highlights of the Government's response.

- A Resource Super Profits Tax will be introduced on 1 July 2012 at a rate of 40% on profits made from the exploitation of Australia's non-renewable resources;
- The States and Territories will be provided with new, ongoing infrastructure funding, with an initial total amount of \$700m in 2012/13;
- A refundable resource exploration rebate will be provided to companies, set at the prevailing company tax rate, for exploration expenditure carried out in Australia from 2011/12;
- The company tax rate will be reduced to 29% from 2013/14, and to 28% from 2014/15;
- The company tax rate for "eligible small business companies" will be reduced to 28% from 2012/13;
- The immediate write-off for assets of small businesses will be extended to assets valued at less than \$5,000 from 1 July 2012;
- The superannuation guarantee charge (SGC) will be increased by annual increments until it reaches the plateau level of 12% by 2019/20;
- The entitlement to the SGC will be broadened by lifting the maximum age threshold from 70 to 75 years of age;
- The concessional contributions cap will be raised to \$50,000 per year for workers who are 50 and over and who have superannuation balances of under \$500,000; and
- A new Government superannuation contribution will be created which will pay up to \$500 for workers with adjusted taxable incomes of up to \$37,000.

Reduced company tax rate from 2013/14

The Government has announced that the company tax rate will be reduced to 29% from 2013/14, and to 28% from 2014/15.

It was recommended in the Henry Report that the company tax rate be reduced to 25% over the short to medium term, with the timing subject to economic and fiscal circumstances (Rec 27).

Small business companies: lower tax rate

The company tax rate for "eligible small business companies" will be reduced to 28% from 2012/13 (ie two years earlier than for other companies).

Small business write-off changes

The capital allowances provisions will be changed in order to allow small businesses:

- to write off immediately assets valued at under \$5,000 (compared with the current \$1,000 limit); and
- to write off other assets (ie assets valued at over \$5,000) in one depreciating pool at the rate of 30%.

Currently, depreciating assets may be allocated to 2 different depreciating pools. This will not apply to buildings.

The revised rules will apply from 1 July 2012.

RSPT

A Resource Super Profits Tax (RSPT) will be introduced on 1 July 2012 at a rate of 40% on profits made from the exploitation of Australia's non-renewable resources.

The RSPT will replace the crude oil excise, and operate in parallel with State and Territory royalty regimes. Projects within the scope of the Petroleum Resource Rent Tax (PRRT) will have the option of opting into the RSPT or staying in the PRRT. The election into the RSPT will be irrevocable.

Under the RSPT a refundable credit for royalties paid to State and Territory Governments will be available. The refundable credit will eliminate investment distortions associated with the state royalty systems and ensure there is no 'double taxation' of resource profits.

Under the RSPT the Government will guarantee to contribute 40% of the investment cost of a resource project.

The Government will consult extensively with stakeholders on the design of the RSPT. The consultation will also cover the need for exemptions from the RSPT where, due to compliance costs, there is no net benefit to society in applying the RSPT. This may occur in respect of low value minerals or micro businesses.

Future reforms indicated

The Government has promised that in the coming months it will have more to say on a number of areas considered by the review.

The business related recommendation by the Government has said it will consider from the Henry Review include:

- the collection of information required for determining tax liabilities and transfer entitlements from third parties, including employers, Government agencies, financial institutions, and share and property registries (Rec 125);
- the development of a single client account for tax and transfer financial information, for example by linking records and existing client identifiers (Rec 130);
- pursuing further approaches (extending and building on Standard Business Reporting) to reduce the compliance costs associated with business interactions with Government (Rec 126); and
- Small businesses should be assisted in becoming business ready when they commence business (Rec 127).

THE COOPER REVIEW

The Cooper review's report on self-managed superannuation funds, the largest super sector, released recently finds them in pretty good health. The purpose of the report is to give interested parties a clear picture of the likely shape of the final recommendations the review's brains trust will make to the federal government.

Every aspect of SMSFs has been examined. In all, the report contains 27 draft recommendations.

It's important not to get too carried away with the proposals made by Jeremy Cooper because there is a long and winding road between initial thoughts and actual legislation. This is especially the case in an election year.

That said, the report gives a reasonable view of most of the changes in store. It reveals 10 guiding principles for SMSFs that will shape the recommendations it delivers to the government. These principles are important because they give us a good basis on which to assess the future regulatory environment for SMSFs.

One of the guiding principles says some regulatory intervention is justified because of the tax concessions given to super funds, and if an SMSF fails the members can fall back on the aged pension. Another principle says leverage within SMSFs is OK but should not be the predominant feature of a super fund.

There are nine broad regulatory areas the Cooper review thinks need tweaking. We will examine several of them here.

Barriers to entry: In this section the review makes six recommendations and, taken as a whole, it will be harder to establish a new SMSF. For example, aspiring SMSF trustees would need to complete specific training to determine the suitability of an SMSF for them. Will this reduce the number of SMSFs being set up? Possibly in the short term but not in the longer term.

Access to the Super Complaints Tribunal: The Cooper review thinks potential fund beneficiaries should have access to the SCT if they dispute a death benefit distribution and they are not a member of a super fund. Trustees of super funds would also be able to approach the SCT if they have problems with life insurance policy claims. Both these changes are welcome, but those trustees who don't plan could face considerable additional cost. Trustees of SMSFs should think carefully about how benefits would be dealt with on a member's death. Any potential doubt should be removed.

Regulator rulings and separate legislation: Some SMSF industry people have long argued that SMSFs should have their own legislation. The Cooper review has rejected this idea as unnecessary and a potential cause of confusion and complexity. At present, the Australian Taxation Office cannot issue binding rulings about super laws and the Cooper review thinks this should change. Many small super fund trustees would welcome definitive information from the ATO.

Service providers: The Cooper review believes financial planners who provide advice to SMSF trustees need better training to successfully fulfil their duties. The review also believes SMSF auditors need additional qualifications and should be fully independent of other service providers.

Allowable investments: There are several investment-rule proposals, including that the 5 per cent in-house asset rule should be removed; those with existing in-house assets should be given a transitional period to divest themselves of this holding. It will be interesting to see if business real property holdings will be affected. The Cooper review suggests SMSFs should not be allowed to trade listed assets (such as Australian Securities Exchange shares) with related parties via off-market processes but should have to conduct such transactions through the official market facilities.