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On The Money

June 2010

Federal Budget

In delivering his third Federal Budget, the Treasurer Wayne Swan suggested the Australian economy had weathered the worst of the global financial crisis and in fact the economy grew by 1.4% in 2009/10. He claims we are well positioned with forecast GDP growth of 3.25% in 2010/11, accelerating to 4% in 2011/12. This is expected to return the Budget to surplus in 2012/13, three years earlier than previously forecasted. Treasury advised that unemployment peaked at 5.8% last year and is currently at 5.3%. It is expected to fall to 5% in late 2010/11 and 4.75% in late 2011/12. Inflation is projected to be contained at 2.5%.

Budget Highlights

Personal Taxation

The Government will deliver its third tranche of personal income tax cuts that were promised in the 2007 election campaign.

INCOME TAX THRESHOLDS

2010/11 Tax Thresholds	Tax Rate (%)	2009/10 Tax Thresholds	Tax Rate (%)
$0 - $6000	0	$0 - $6000	0
$6001 - $37,000	15	$6001 - $35,000	15
$37,001 - $80,000	30	$35,001 - $80,000	30
$80,001 - $180,000	37	$80,001 - $180,000	38
$180,001 +	45	$180,001 +	45

- Personal tax rates - the threshold for the 30% marginal tax rate will be increased by $2,000 to $37,001 and the 38% marginal tax rate will be reduced to 37%.
- Low Income Tax Offset (LITO) will be increased to $1,500 (currently $1,350) for incomes up to $67,500 (currently $63,750) from 1 July 2010 and will begin to phase out from $30,000. Taxpayers eligible for the full low income tax offset will not pay tax until their annual income is over $16,000 (up from the current $15,000).
- In a bid to simplify the current personal income tax return system the Government will from July 1, 2012 provide workers with an optional standard tax deduction of $500 instead of having taxpayers detail their work-related expenses in their tax return. This standard tax deduction will increase to $1,000 from July 1, 2013. Taxpayers with deductible expenses greater than the standard threshold will still be able to itemize and claim their higher expenses in lieu of the standard deduction.
- From 1 July 2011, individuals will be eligible for a 50% tax discount on up to $1,000 of interest earned. This includes interest earned on deposits held with any bank, building society or credit union as well as on bonds, debentures or annuity products. The discount will be available for interest income earned directly as well as indirectly, such as via a trust or a managed investment scheme (MIS).
- The net medical expenses tax offset threshold will increase to $2,000 (currently $1,500) from 1 July 2010 and will be indexed annually (from 1 July 2011) to reflect the movements in CPI in subsequent years. Taxpayers can only claim the 20% tax offset for net unreimbursed eligible medical expenses that exceed the threshold for the relevant year.
- The childcare rebate cap per child has been reduced to $7,500 (currently $7,778) and indexation of the cap has been frozen for four years from 1 July 2010.

Social Security & Medicare Levy

- With effect from 1 July 2009, the Medicare levy low-income thresholds are $18,488 for individuals and $31,196 for couples. The thresholds will increase by an additional amount of $2,865 for each dependent child or student.
- For pensioners below the Age Pension age, the Medicare levy threshold has increased to $27,697 with effect from 1 July 2009. This increase will ensure that pensioners below Age Pension age do not pay the Medicare levy when they do not have an income tax liability.
- The Government has proposed stricter eligibility requirements for Family Tax Benefit - Part A (FTB-A) where they have children aged 16 to 20 who have not completed year 12 or an equivalent qualification. To remain eligible for FTB-A, it is now proposed that the children in these cases must participate in full-time education or training. This proposal removes the option of allowing the children to participate in part-time education or training in combination with other approved activities, leading to year 12 or an equivalent qualification.

Budget Highlights Continued

Business Taxation

Reduction In Company Tax Rate - The Government has proposed to reduce the current company tax rate of 30% to 29% for the 2014 income tax year and 28% from the 2015 income tax year. Small businesses will be eligible for the 28% rate from 1 July, 2012, two years earlier than larger companies. This is the first rate reduction since 2001 and the change will benefit an estimated 720,000 small businesses who operate as company (out of the total 2.7 million small business entities). The Government will not make any changes to the dividend imputation system.

Asset Write Offs - It is proposed that from 1 July, 2012 small businesses will benefit from the immediate write off of assets purchased that cost less than $5,000. Currently, assets costing less than $1000 are eligible for an immediate tax deduction while assets costing over $1000 are written off at two different rates depending on their estimated useful life.

Along with changes to the depreciation rules, the depreciation of all other assets (excluding buildings) will be 'pooled' or grouped at a simpler 30% rate to accelerate the tax write off. In their first year of purchase the rate will be 15 per cent. The Government has not issued guidelines regarding what entities would qualify as 'small business entities' but currently a small business is generally one which has an aggregated annual turnover of less than $2 million.

Resources Super Profits Tax - The centerpiece of the Government's first wave of tax reform in response to the Henry Review is the introduction of a 'Resources Super Profits Tax' (RSPT) on petroleum and mining projects from 1 July 2012 . The RSPT will replace the crude oil excise and operate in parallel with existing State and Territory royalty regimes. The proposed RSPT will be payable at 40% on the realized value of resource deposits, measured as the difference between the revenue generated from resource extraction and the associated costs. The RSPT is the funding vehicle for other announced reforms and the Government need to overcome some major political hurdles before the reforms become reality.

Business Names Register - The Government will spend $125.2 million over the next eight years to create a single national online registration system for business names and Australian Business Numbers, meaning businesses will no longer need to be registered in each State and Territory.

Hire Purchase & GST - Small businesses that account for GST on a cash basis will from 1 July 2012 be allowed to claim the upfront GST input tax credit in relation to hire purchase agreements.

ATO Focus On Cash Economy

The Government will provide the ATO with an additional $107.9 million over four years to target tax avoidance by some small businesses who conduct some or all of their business in the cash economy. The additional funding will be used to "increase the visibility of the ATO in the small business community" and improve the level of compliance of those small businesses who deal in the cash economy. This measure is expected to result in:

- An additional $491.8 million in revenue in fiscal balance terms over four years and
- An increase of $39.9 million in Tax Office administered expenses over the same period

In underlying cash terms, the expected increase in revenue is $366.5 million over four years, including $146.7 million in GST collections that will be paid to the states and territories.

GST Compliance Program

The Government states that it will provide $337.5 million over four years (from the 2010/11 to the 2013/14 income years) to the Tax Office to fund additional activities that will promote voluntary GST compliance and provide a level playing field for Australian businesses. The Government also states that the funding will address issues relating to:

- Fraudulent GST refunds
- Systematic under-reporting of GST liabilities
- Non-lodgement of GST Returns
- Non-payment of GST debts

The greatest compliment we receive from our clients is the referral of their friends, family and small business colleagues. Thank you for your support and trust.

Budget Highlights Continued

Superannuation

Financial Year Ended	Superannuation Guarantee Rate
30 June 2014	9.25%
30 June 2015	9.50%
30 June 2016	10.0%
30 June 2017	10.5%
30 June 2018	11.0%
30 June 2019	11.5%
30 June 2020	12.0%

The Government has announced that superannuation guarantee (SG) payments made on behalf of employees (currently 9%) will progressively increase to 12% by the year ending 30th June, 2020. The delayed and staggered increases are designed to give employers time to factor the increases into wage negotiations.

It is expected that about 8.4 million employees will benefit from these measures and according to the Government, a 30 year old earning average full time wages will have an additional $108,000 in retirement savings. Note that it is not clear what assumptions (earning rates etc.) this projection is based on.

- The employee age limit for superannuation guarantee payments will increase from the current age of 70 years to 75. Around 33,000 employees are expected to benefit from the change and this measure will bring it in line with those self-employed people who can make deductible contributions until they turn 75. The commencement date of 1 July, 2013 coincides with the initial increase in the rate of SG.

- For workers earning less than $37,000 per annum, the Government will also make a contribution of 15% of the concessional contributions made on their behalf, up to a $500 limit. In effect, the tax on the superannuation contributions for these workers (currently 15%) would be nil. These changes will come into effect from 1 July, 2012.

- For people over 50 years of age with superannuation balances of less than $500,000, the Government has also increased the amount of deductible superannuation contributions they can make from $25,000 to $50,000 per annum. These measures are designed to increase the superannuation savings of Australians and it is also a major step forward in assisting lower income earners with their retirement savings.

- The Government has announced that it will seek to permanently set the matching rate for the superannuation co-contribution at 100%. The maximum co-contribution that is payable on an individual's eligible personal non-concessional superannuation contributions is $1,000. As a result, the previously legislated increase in the matching rate to 125% for the 2012/13 and 2013/14 years (and to 150% for 2014/15 and later years) will not proceed.

- The Government says that for 2010/11 and 2011/12 it will freeze the indexation applied on the income threshold above which the maximum superannuation co-contribution begins to phase down. Under the superannuation co-contribution scheme, the Government currently provides a matching contribution for contributions made into superannuation out of after tax income. The matching contribution is up to $1,000 for individuals with incomes of up to $31,920 in 2009/10 (with the amount available phasing down for incomes up to $61,920). The new measure will freeze these thresholds at $31,920 and $61,920 for two years.

  The Government says this measure follows its earlier announcement in response to the Henry Tax Report, proposing a $500 annual superannuation contribution for individuals with an adjusted taxable income up to $37,000.

The Henry Review Into Australia's Tax System

The long-awaited review of Australia's tax system by Treasury Secretary, Dr Ken Henry has not gained significant support from the Federal Government. There will be widespread disappointment that the Government's response was not stronger or more directly supportive of the Report, particularly given the time taken to consider the Report (more than four months) and the substantial investment taxpayers have made in this process so far.

The primary objective of The Henry Review was to identify the reforms necessary to enable the Australian taxation system to meet the challenges of the 21st Century. The 1,300 page Henry Review produced 138 recommendations but only 5 of them have been accepted whilst 29 recommendations have been clearly rejected either partially or wholly and 114 will be subject to further consultations. The Government has specifically rejected the following recommendations made by the Henry Review:

- Introducing land tax on the family home
- Reducing the general 50% capital gains tax discount
- Removing tax deductions for 'negatively geared' rental properties
- Abolishing the Medicare levy
- Requiring parents to work when their youngest child turns 4
- Introducing a bequest or death tax
- Increasing the current GST rate of 10%
- Removing the Luxury Car Tax

Education Tax Refund

The Education Tax Refund lets parents claim a 50% tax refund on eligible education expenses incurred during the year. The total eligible education expenses are capped at $750 for primary school children and $1,500 for secondary school children. Qualifying expenses include:

- laptop computers
- home computers and associated costs including repair and running costs of computer equipment
- computer related equipment such as printers and USB flash drives
- home internet connections
- computer software for educational use
- school textbooks and other paper based school learning material and
- prescribed trade tools.

Examples of education expenses **not** eligible for the rebate include:

- school fees
- school uniform expenses
- student attendance at school-based extra curricular activities
- musical instruments
- sporting equipment
- computer games and consoles.

To receive the benefit a parent must be eligible to receive the Family Tax Benefit (FTB) Part A for their child. The education tax refund is a fully refundable tax offset that will be paid as part of your tax return. If you are not required to lodge a tax return, you will need to lodge a 2010 Education Tax Refund Claim. If your expenses exceed your refund limit for the year, any excess will be carried forward to your following year's refund claim, as long as you remain eligible.

Expenses must be incurred by the child's parents to be eligible. For example, expenses paid by grandparents are not eligible and grandparents cannot claim the expense either. Note, expenses can be combined for families with more than one child and the expense limit can also be combined to maximise parents' entitlements. Most importantly, you should keep any receipts as part of your normal record keeping as the Australian Taxation Office may ask you to substantiate your claim.

Trusts

- A minor (i.e. aged under 18) can receive up to $3,000 in non-taxable distribution for the 2009/10 financial year
- If a company is owned by a discretionary trust, consider whether a family trust election (FTE) is needed to ensure any losses or bad debts incurred by the company will be deductible
- If shares are owned by a discretionary trust, consider the necessity for the trustee to make a FTE to ensure any franking credits attached to the dividends will not be 'wasted'
- If a FTE has been previously made, avoid distributing outside the family group to avoid the family trust distributions tax
- A recent High Court case confirmed that it is correct to apply the proportionate approach if the net income of a trust for tax purposes exceeds its accounting income
- The court also affirmed that the trustee can distribute capital gains as income of the trust for tax purposes if the trust deed permits it
- Avoid retaining income in a trust because the income may be taxed at 46.5%

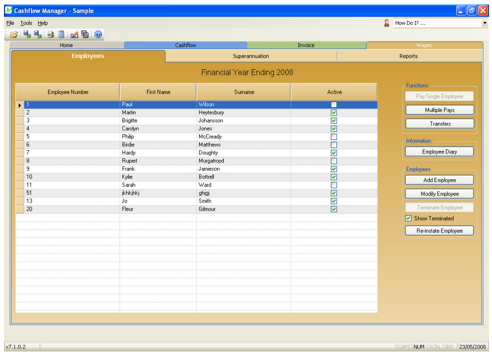
E-Record Will Not Be Available From July 2010

Since March 2000 the ATO have provided small business owners with a free electronic record-keeping system, e-Record. It was originally developed as an interim product that would help small businesses move from paper-based record keeping but a decade later it needs to be redeveloped to keep up with technology and new business directions.

From 1 July 2010, e-Record will no longer be available and it will no longer be supported after 30 September 2010.

Users will need to move from e-Record to a suitable alternative record-keeping system and you should have your new system in place by 30 June 2010. The ATO have indicated that you may continue to use e-Record after 30 June 2010 but only to complete your 2010 or prior income year records. You should not use e-Record for your 2011 income year records. Speak to us today about a suitable alternative for your record-keeping system.

Payroll Software

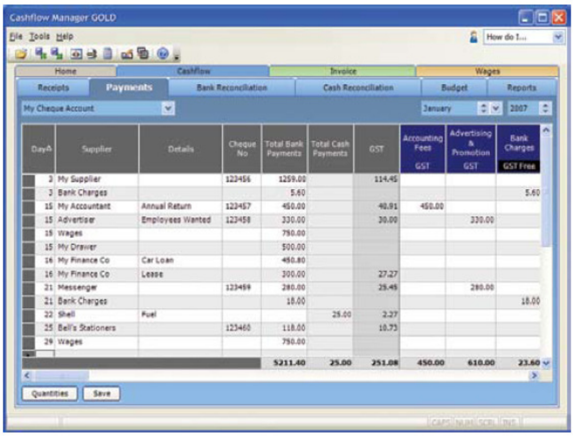


If you are considering computerising your payroll we strongly recommend the program **'Wages Manager'**. Apart from its simplicity, Wages Manager also generates a number of key reports at the click of a button including:

- The Annual PAYG Payment Summaries (Group Certificates) for staff
- The key figures to appear at W1 & W2 on your BAS
- Superannuation Calculation and Payment Reports

If you would like more information or a demonstration copy of Wages Manager to review, call our office today.

Software Options For Business Owners



Despite the fact that the GST tax system is now ten years old, many small business owners continue to struggle to cope with their GST and BAS obligations.

Software selection is a critical business decision and to assist you we provide the following guidelines:

- Don't buy software beyond your business needs. If you don't require a fully integrated general ledger system or inventory, then don't buy a sophisticated accounting program.
- If you don't understand double entry accounting (debits, credits or journal entries) then avoid accounting programs. Instead, consider a single entry bookkeeping program.
- If your business requires a double entry accounting system then consider a training course at a local TAFE or College. The duration of these courses is usually 12-16 hours.
- Ideally your software should be compatible with our systems to allow electronic transfer of your data, which can save time, money and assist with meeting lodgement deadlines.

If you simply need a bookkeeping program we strongly recommend **'Cashflow Manager'**. This program looks and operates just like a manual cashbook complete with a spreadsheet or column layout and requires no understanding of accounting debits and credits.

The program also includes customer Invoicing and Debtors that lets you generate tax invoices, control your debtors and print a number of reports including customer statements. Add-on modules for Payroll, Creditors and Inventory Tracking are also available in the 'Gold' version of the program. Free demonstration CD's are available from our office.

Our role as your accountant includes helping you reduce the GST administrative burden. We urge you to consult us regarding your choice of accounting software because the wrong software can prove very costly.

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.

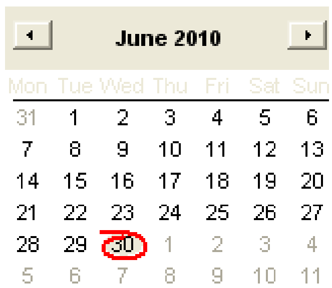
They also have an ongoing 'data matching project' that is systematically checking property sales in every state since 1 July, 1999. The data will be checked against the ATO's Capital Gains, GST and Income Tax records.

To record all your rental income, expenses and cost base information on your rental property, we recommend the Rent Manager program that is available from our offices.

2010 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 2010 to determine recoverability)
- Prepayments (NB: Rules apply to restrict deductibility in some instances)
- Capital Asset Sales
- Superannuation Contributions (due July 28, 2010 but pay before June 30, 2010)
- Salary Packaging
- Trading Stock revaluation



If you require further clarification regarding the tax implications of your activities for the year ended 30 June 2010, we suggest that you contact our office immediately.

Car Expenses - Rates Per Kilometre for 2009/10

The cents per kilometre rates for car expenses for the year ending 30th June, 2010 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, 2010. The motor vehicle cost price depreciation limit for 2009/10 is $57,180.

Car Size	Rate
Small Car (non-rotary engine not exceeding 1600cc, or rotary engine not exceeding 800cc)	63c per km
Medium Car (non-rotary engine 1601cc – 2600cc, or rotary engine 801cc – 1300cc)	74c per km
Large Car (non-rotary engine 2601cc and above, or rotary engine 1301cc and above)	75c 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. They include lease, 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 accountants we are committed to helping you save 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 of equipment or shop fitout simply call our office because we have access to a vehicle and equipment service that provides:

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

Starting or Buying a Business?

We believe that starting a business is like a game of chess, to succeed you need to make the right opening moves.

Having assisted so many clients in starting or buying their business we would like you to benefit from our experience. There is an old saying, 'people don't plan to fail, they just fail to plan.' This is both valuable advice and a warning for people intending to start a business. We can help you prepare some ‘what if’ financial scenarios to assess the viability of your business and identify your finance requirements.

Business Start-Ups is one of our specialist services and clients have access to a range of tools including a checklist of start up expenses, cash flow budget, business plan template and our 44 page booklet, ‘Starting or Buying a Small Business’.

Successful businesses have clear objectives, produce quality products or services, understand their market, manage their money properly and are good employers. They also keep good records and have an open relationship with their accountant. Talk to us today about starting your business and we’ll make sure you make the right opening moves.

IMPORTANT DISCLAIMER: This newsletter is issued as a guide to clients and for their private information. 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.

2010 Tax Return Client Checklist

June 2010

2010 - 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
- Education Expenses - Details of education expenses including computers, printers USB flash drives, computer repairs, software for educational use, textbooks, stationery and prescribed trade tools. (Excludes school fees, uniform costs, excursions, camps, photos, musical instruments and sporting equipment.
  The rebate is 50% of eligible education expenses capped at:
  - $750 for each primary school student giving a maximum rebate of $375 per child
  - $1500 for each secondary school student giving a maximum refund of $750 per child

2010 - Companies, Partnerships, Trusts and Other Business

Income

- Trading income.
- Other income (e.g. Rent, Interest, Royalties).
- Stock on Hand at June 30, 2010 (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 any 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 or Chattel Mortgage payments on motor vehicles and equipment.
- Losses of previous years (or intra-group 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 destination and purpose 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, 2010
- 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, 2010
- 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.

8 Most Common Errors in Income 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

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.