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Client Newsletter

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AFTER A VERY BUSY FEW MONTHS, we are nearing the end of another financial year. This month's newsletter therefore includes a few of our regular end-of-year reminders, including a few tax planning tips, reminders of upcoming changes to tax rates and thresholds, and a timely reminder regarding the new reduction in superannuation contribution limits.

We also look at the long awaited release of the Henry Review into the taxation system and the subsequent Federal Budget announcements.

On page 3, we provide some tips about ensuring you are able to claim tax deductions for making gifts and donations.

If you have any questions or need further information regarding articles in the newsletter, please just contact our office. As always, we wish you happy reading – and a happy New Financial Year!

Tax Planning – time to get cracking!

It's that time of the year again! With the last few days of June ticking over, now is the time to get your last-minute tax planning tips. Here are a few things to think about:

- Can you defer any individual income until July? If so, you could take advantage of the increase in the individual income tax threshold for a "one-off" permanent tax saving, if your income is in the range of \$34,000 - \$37,000 (as the 30% tax

rate threshold increases to \$37,000 from 1 July).

- If you are planning to dispose of any assets that may trigger a capital gain, consider holding on to the asset until July, to defer the capital gains tax for another year.
- Are you eligible for a co-contribution for a personal superannuation contribution? If your income is under \$61,920, you could be eligible for up to \$1,000 in co-contribution for a \$1,000 after-tax personal contribution to your superannuation fund. In order to be eligible for the co-contribution, you must make your contribution to your fund by 30 June.
- Education tax refund – are there any eligible education expenses you can pay for your children before 30 June? Remember that, if you are eligible, you can claim 50% of eligible expenses for your school-aged children – up to \$375 (i.e. \$750 of expenses) for primary school students and \$750 (i.e. \$1500 of expenses) for high school students.
- Can you bring forward or pre-pay any business expenses, to help increase your business deductions for 2009/10? (e.g. subscription fees, interest on loans).
- Review your debtors listing now, so you can determine if there are any bad debts that need to be written off. Bad debts need to be written off by 30 June in order to claim the deduction in this financial year.

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This newsletter is presented in summary form as a guide only for clients of Rhodes Docherty & Co. It should not be relied upon as a substitute for detailed advice or solely as the basis for making business decisions.

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The Henry Review

The last few months has seen much press regarding the Henry Review regarding reforms to Australia's taxation system.

While Dr Henry handed his Review to the government in December 2009, the details were not released to the public until last month, along with the government's response.

Officially titled "Australia's Future Tax System Review", the release and government response on 2 May 2010 was a precursor to the Federal Budget two weeks later. We will highlight some of the details of the Henry Review in this section and the budget announcements further on in this newsletter.

The Henry Review contained a total of 138 recommendations. Some have been accepted by the government, others have been rejected and some have been postponed or not commented on. This does give an indication about which areas of the tax system are potentially still on the agenda for future reform.

Of the recommendations implemented, some have been modified. So what has been accepted and rejected? Here are some examples:

Recommendations Implemented

- Resource Super Profits Tax
- Standard deductions for work-related expenses
- Reduction in the company tax rate to 28%
- Instant write off for small business assets up to \$5,000
- Superannuation contribution from the government up to \$500 for low income individuals
- Continue the concessional superannuation contributions cap of \$50,000 pa for those over 50 year of age, but only for those with superannuation balances below \$500,000
- Lower tax rate on interest income earned by individuals

Recommendations Rejected

- Introduction of land tax on the family home
- Changes to capital gains tax, including the removal of the 'pre-CGT' exemption
- Removal of tax concessions for the Not for Profit sector including changes to the Fringe Benefits Tax regime and raising the threshold for tax deductible donations
- Removal of the Medicare Levy
- Inclusion of the family home in means tests
- Introduction of a volumetric alcohol tax

Just as interesting as the recommendations implemented and rejected are those that the government has done neither to. That is, there are a large number of recommendations that are still up for discussion and potential implementation at a future date. These recommendations include:

- Removal of two of the four small business CGT concessions
- Removal of various tax offsets including net medical expenses, senior Australians and mature age workers tax offset
- Changes to the superannuation system including replacement of the current 15% contributions tax while taxing contributions in the individual's name with a corresponding tax offset

- Allowing companies to apply tax losses to prior year profits
- Overhaul of the Fringe Benefits Tax regime
- Simplification of the personal tax brackets from five to three

Surprisingly, the government's announcement to increase the superannuation guarantee from 9% to 12% incrementally over seven years was not contained in the Henry Review. More details on this change can be found in the budget analysis section of this newsletter.

The most controversial recommendation implemented is the Resource Super Profits Tax (RSPT), which is the lynch pin of much of the Federal Budget. Many of the changes announced in the budget rely on the revenue raised by the RSPT, so if this measure is not passed or is modified significantly, expect various other budget measure to change.

Check out our next section on the Federal Budget to see all of the upcoming changes in the new financial year.

Federal Budget and tax changes

Here are some of the main changes that will occur over the following few years. Some of changes were announced in the Federal Budget in May, while others were announced in prior years and are now due for commencement.

2010/11 personal tax rate changes

The individual tax rates are changing from 1 July 2010. They are detailed here – the changes are highlighted in yellow.

If you have payroll software, you will need to ensure that you keep your software up to date so you can download the latest tax rates from your supplier.

The new tax rates starting 1 July 2010 are:

2010/2011 - Taxable Income	Tax Rate
\$0 – \$6,000	0 per cent
\$6,001 – \$37,000	15 per cent
\$37,001 – \$80,000	30 per cent
\$80,001 – \$180,000	37 per cent
\$180,001 +	45 per cent

Plus Medicare Levy 1.5 per cent

Company tax rate reduction – what does this mean for dividends?

One of the changes announced in the recent Federal Budget was the reduction in the company tax rate from 30% to 28% - a change that will apply from 1 July 2012 for small businesses, while it will be phased in over two years from 1 July 2013 for other companies.

While the change in tax rate is still a way off, it is worth noting that the reduction in the tax rate will also reduce the franking rate of company dividends. This means that, in some cases, companies may end up with franking credits "wasted" in their franking account (as the franking credits arise when the company tax rate is 30% but can only be franked at the rate of 28%).

If companies wish to avoid this “wastage” of franking credits, they should start planning their dividend policy now, to ensure they make the most of their franking account balance. This may also include evaluating the tax impact of extra dividends on shareholders. If you would like assistance with planning your company’s dividend policy in the light of the company tax rate change, please do not hesitate to contact our office.

Increase in threshold for medical expense rebate

As announced in the 2010 Federal Budget, the threshold for the medical expenses rebate will be increased from 1 July 2010. In the current tax year, taxpayers receive a rebate of 20% of out-of-pocket medical expenses (i.e. expenses after Medicare and health fund rebates) over \$1,500. From 1 July 2010, this threshold for out-of-pocket expenses will rise to \$2,000.

Increase in Superannuation Guarantee rate

Businesses will be required to slowly contribute more superannuation for their employees over the next decade. The Superannuation Guarantee rate will increase from its current 9% to 12% by 2020. The new rates will be:

Financial Year	Super Guarantee Rate
2013 – 14	9.25%
2014 – 15	9.5%
2015 – 16	10%
2016 – 17	10.5%
2017 – 18	11%
2018 – 19	11.5%
2019 – 20	12%

In addition, the Superannuation Guarantee age limit will be raised from 70 to 75 commencing 1 July 2013.

Tax incentives for savings

Commencing 1 July 2011, individuals will be entitled to a 50% discount on up to \$1,000 worth of interest income earned. This measure is designed to provide individual taxpayers a greater incentive to save

Other changes

Various other changes to the superannuation co-contribution, the non-commercial loans and an increased limit for the immediate write-off of assets for small businesses were also introduced. You can contact our office for more details on these, or any of the budget announcements.

Tax Deductible Donations

AUSTRALIA IS BECOMING a more generous nation, with 87% of people making a donation at least once during the year.

Most people are aware that they can claim a tax deduction for a voluntary gift of \$2 or more made to approved organisations, termed Deductible Gift Recipients (DGR). However, did you know that you might also be entitled to a tax deduction if you donated property such as artwork, land or a computer? To be eligible for a deduction, the property must either have been purchased within the last 12 months, or if older than 12 months, be valued at more than \$5,000. The deduction is the lesser of the market value of the property or what you paid to acquire it.

A tax deduction for most gifts is claimed in the tax return for the income year in which the gift is made. While a gift cannot add to (or create) a tax loss, you may elect to spread the tax deduction over five income years if it was a gift of money. This spreading rule also applies to donations of property valued at more than \$5,000. This ensures that you may still get a tax benefit in the future if your income is low or nil in the year of making the gift.



Generally you cannot claim a deduction for a donation if you received something in return other than tokens like lapel badges or stickers that promote the organisation.

However, this rule does not apply to certain fund-raising events. A fund-raising event includes a fete, ball, gala show, dinner, performance or similar.

You can claim a deduction for contributions to fund-raising events where you received a minor benefit for your contributions if you made:

- A contribution of money or property to attend or participate in a fund-raising event, or
- A contribution of money to purchase goods or services at a charitable auction.

Your contribution must meet the following conditions:

- It was made to an approved organisation.
- If it was money, it was more than \$150.
- If it was property, you either:
 - purchased it within 12 months of making the contribution, and both the market value on the day of the contribution and the purchase price were more than \$150, or
 - owned it for more than 12 months and the Australian Valuation Office valued it at more than \$5,000.
- If it was publicly listed shares, the value was more than \$150 and less than or equal to \$5,000.
- The fund-raising event was held in Australia.
- The GST inclusive market value of the minor benefit you received for your contribution must have been worth no more than \$150 or 20% of the value of the contribution, whichever is less.



And remember that if you would like to claim a tax deduction for your gifts, always keep your receipts or other documentation to substantiate them.



Superannuation contributions – don't overdo it!

NOW IS THE TIME to review your employer superannuation contributions (or personal superannuation contributions, if you are self-employed), to ensure that you have not breached the newly reduced superannuation contribution limits.

If you are under the age of 50, the new limit on concessional contributions (i.e. employer contributions or personal tax-deductible contributions) is \$25,000 (or \$50,000 if you are over 50). This is half the previous tax year's contribution limit.



The ATO will be looking more closely at contributions this year, to ensure the limits have not been breached. So, now is the time to:

- Check all cash contributions to your super fund, as well as any "extra" contributions (e.g. Expenses paid on behalf of the fund – tax instalments, ATO levy, insurances, etc) – it is important to ensure that these "extra" contributions do not put you over the limit.
- If you have more than one employer, check that the total of all your employers' contributions will not breach the limit.
- Remember that contributions are taken up in the year that they are actually paid – so if you accrue contributions in the financial reports of your business but physically pay them in the following month, you cannot just rely on your financial report when reviewing your contributions; you will need to check the actual dates of contribution payments.
- If your contributions are made by regular monthly contributions, check that the amount of June's contribution will not put you over the limit – if it will, take steps now to reduce June's contribution amount.

What do you do if you review your contributions and find that you have already contributed too much to superannuation for 2009/10? The first thing to do is to contact us

straight away, as it is important to act quickly if you are to avoid/reduce penalties. We may take the following steps:

- Depending on the trust deed of the fund, the excess contribution may be able to be repaid, as long as it is within 30 days of the trustee becoming aware of the excess contribution; or
- The contribution may be able to be held in reserve for 25 days. Depending on the timing of this 25 day period, this might mean that a contribution would be in reserve on 30 June, so it could be applied to the member in the next financial year.

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- If you make superannuation contributions on a monthly (or quarterly) basis, and would usually make your payment in July for the June month/quarter, consider making the payment in June instead. By paying in June rather than July, you can bring forward the tax deduction to the current financial year. However, please bear in mind the new reduced super contribution limits (see our article in this newsletter) so that this "early" payment does not result in your employees breaching their super contribution limit for 2009/10.
- Do you have any old, damaged or obsolete trading stock? This can be written off by 30 June and claimed as a tax deduction.
- Have a look at your depreciation schedule – you may find that you are still depreciating assets that you no longer use in your business. Note on your schedule any assets that are damaged, obsolete or that have been scrapped, so they can be written off as a tax deduction.

The above list is general in nature, so if you have any questions about your own circumstances, please do not hesitate to call our office for further assistance.

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