June 2012 Newsletter

BWR Accountants & Advisers

Contact Us:

36 Templar St
Forbes NSW 2871
t: 02 6852 1855
f: 02 6852 4198

136 Clarinda St
Parkes NSW 2870
t:02 6862 1444
f: 02 6862 1990

Email:
info@bwraccountants.com.au

Visit us on the web:
www.bwraccountants.com.au

2012 Budget

Small Business Measures

As previously announced under the Clean Energy Future Initiative (carbon tax) the government has enacted an instant tax write off for the first $5,000 of any motor vehicle purchased from 2012/13 (which replaces the Entrepreneurs Tax Offset). The remainder of the motor vehicle value is pooled in the general small business pool.

An immediate write off of all assets valued at under $6,500 (up from $1,000). The existing asset write-off improves business cash flow by providing an immediate income tax deduction for the cost of the eligible asset.

A write off of all other assets (except buildings) in a single depreciation pool at a rate of 30%. The change applies from the 2012-13 year.

Businesses to be allowed to carry back losses

The 2012 budget has proposed a one year loss carry-back will apply in 2012/13 where tax losses incurred in that year can be carried back & offset against tax paid in 2011/12 year. For 2013/14 & later years, tax losses can be carried back & offset against tax paid up to two years earlier. Companies will be able to carry-back up to $1 million of losses each year. This measure can provide a cash benefit of up to $300,000 per year.

The measure will be available to companies and entities that are taxed like companies. It will apply to their revenue losses only & will be subject to integrity rules, & is to be limited to a company's franking account balance.

Means Testing Medical Expenses Tax Offset

The Medical Expense Tax Offset will be means tested from 1 July 2012. For people with adjusted taxable income above the Medicare Levy Surcharge thresholds ($84,000 for singles & $168,000 for couples or families in 2012-13), the threshold above which the taxpayer may claim the medical expenses offset will be increased to $5,000 (indexed annually thereafter). In addition, the rate of reimbursement will be reduced to 10% for eligible out of pocket expenses incurred. People with income below the surcharge threshold will be unaffected. Currently the Medical Expenses Tax Offset or rebate is 20% of the excess over $2,060 (for 2011-12 financial year).

Education Tax Refund Replaced with Schoolkid Bonus

The SchoolKid Bonus will replace the Education Tax Refund (ETR) which is currently available as a refundable tax offset. The SchoolKid Bonus will be made in two equal installments in January & July each year commencing January 2013. As a transitional arrangement, the ETR in 2011/12 will be replaced by a one-off lump sum payment to eligible families in June 2012.

From January 2013, every eligible family with a child at school will be guaranteed $410 per annum for each primary school student & $820 per annum for each secondary school student. All eligible families will receive the full rate of payment & will no longer need to keep receipts as proof of expenses that have been incurred, or wait until their tax returns have been lodged. Eligibility for the payment will be open to families with children enrolled & attending school who are in receipt of Family Tax Benefit (FTB) Part A or other qualifying income support payments or allowances under a prescribed educational scheme that precludes the family from receiving FTB A.

Family Tax Benefit Part A– Eligibility Changes & Increasing the Rate

Eligibility for Family Tax Benefit A will be limited to young people under 18 years of age or, where a young person remains in secondary school, at the end of the calendar year in which they turn 19. Individuals who no longer qualify for FTB A may be eligible to receive Youth Allowance subject to usual eligibility requirements. This change seeks to focus payments in the family assistance system on families with children who are at school, while Youth Allowance will become the primary form of assistance to eligible young adults aged 18 and over.

Family Tax Benefit Part A will increase by $300 per annum for families with one child and $600 per annum for families with two or more children. For families receiving the base rate of FTB A, the increase will be $100 per annum for families with one child & $200 per annum for families with two or more children.

Low Income Tax Offset

From 1 July 2012, individuals will be entitled to received the Low Income Tax Offset (LITO) if their taxable income is below $66,667. The maximum value of the LITO will be reduced from $1,500 to $445 & will be phased out at the rate of 1.5cents for each $1 of taxable income over $37,000. Together with other changes this will mean low income earners will have an effective tax free threshold of $20,542.

Mature Age Workers Tax Offset Phased Out

The mature age workers tax offset will be phased out for tax payers born on or after 1 July 1957. Access to the offset will be maintained for taxpayers who are aged 55 years or older in 2011/12.

Merging of Pensioners Tax Offset & Senior Australian Tax Offset

The creation of the new Seniors & Pensioners Tax Offset (SAPTO) , from July 2012 means the Pensioner Tax Offset will no longer be available & all individuals who were previously eligible for the pensioner tax offset will be eligible for the Senior Australian Tax Offset which will be known as SAPTO. From 1 July 2012, individuals exempt from the Medicare Levy up to the income threshold applying to recipients of the Pensioner Tax Offset will be exempt from the Medicare Levy up to the income threshold applying to individuals entitled to the SAPTO.

Individual Income Tax Rates			
2011/12 Income Tax Rates		2012/13 Income Tax Rates	
Taxable Income	Tax on this Income	Taxable Income	Tax on this Income
$0 -$6,000	Nil	0— $18,200	Nil
$6,001- $37,000	15c for each $1 over $6,000	$18,201—$37,000	19c for each $1 over $18,200
$37,001- $80,000	$4,650 + 30c for each $1 over $37,000	$37,001—$80,000	$3,572 + 32.5c for each $ 1 over $37,000
$80,001- $180,000	$17,550 + 37c for each $1 over $80,000	$80,001—$180,000	$17,547 + 37c for each $1 over $80,000
$180,001 & over	$54,550+ 45c for each $ over $180,000	$180,001 & over	$54,547 + 45c for each $1 over $180,000
The above rates do not include the 1.5% Medicare Levy			

Medicare Levy Thresholds Increases

From the 2011/12 income year, the Medicare Levy Low-Income Thresholds will be increased for singles to $19,404 (up from $18,839 for 2010/11) & to $32,743 for those who are members of a family (up from $31,789 for 2010/11). The additional amount of threshold for each dependent child or student will also be increased to $3,007 (up from $2,919).

The Medicare low income threshold for pensioners below Age Pension age will also be increased from 1 July 2011 to $30,451 (up from $30,439). This will ensure pensioners below age pension age will not pay the Medicare levy while they do not have an income tax liability.

Tax Planning– what to do before 30 June 2012

Immediate write offs & deductions for small business

Small business entities (operational businesses with an aggregated turnover below $2 million) have access to a range of tax concessions. These concessions provide additional opportunities to maximize your tax deductions including immediate deductions for:

- Depreciable assets, including software costing less than $1,000 (keep in mind this increases to $6,500 from 1 July 2012)
- Prepaid expenses (such as rent, subscriptions, insurances or lease payments) where the payment is for a period of service which is 12 months or less & ends in the next income year.

Now is the time to consider bringing forward expenditure on these items in order to reduce your tax liability for the 2012 year. Let us know if you would like to discuss how this will impact on your cashflow position.

Superannuation

Superannuation savings are one of the most tax effective ways of saving for the long term due to generous tax concessions.

If you are aged between 16 & 64 years you are eligible to make superannuation contributions. If you are over 65 years you are required to meet the work test (you must have worked a minimum of 40 hours in a 30 day consecutive period) before being eligible to make either concessional or non-concessional contributions. If you are over 75 years contributions are restricted to mandated employer contributions only.

In order to obtain the maximum benefit from your super contributions you need to be aware of the caps & ensure you do not over contribute & incur excess contributions tax. The contributions cap for 2011/12 are as follows:

Concessional contributions: which include salary sacrifice contributions, superannuation guarantee contributions & self employed deductible contributions, that can be made by employers & members are:

Less than 50 years	$25,000
50 years or more	$50,000 (this reduces to $25,000 from 1 July 2012)

Employees Super

If you want to claim a tax deduction in the current year, pay your employee June quarter contributions before 30 June. The next quarterly super guarantee payment is due on 28 July 2012. Some employers choose to make the payment early to bring forward the tax deduction instead of waiting another 12 months.

Farm Management Deposits

This scheme allows primary producers to claim a deduction for Farm Management Deposits (FMDs) in the year they deposit. It allows them to manage their exposure to seasonal fluctuations by shifting before tax income to years when it is most needed. When you withdraw a farm management deposit, the withdrawn amount (of the deduction previously allowed) is included in your assessable income in the year of withdrawal. The scheme is restricted to individuals.

If you are eligible you need to make sure the deposits are at least $1,000 & no more than $400,000 in total at any one time. You can only make deposits with one FMD provider who is an authorized deposit taking institution. To qualify for the tax deduction, the deposit must remain in the account for 12 months from the date of deposit & must come from primary production income.

You cannot claim a deduction for deposits if your taxable income from non-primary production activities for the year exceeds $65,000.

Deferring Income

You may be able to defer recognition of income received before year end for services not yet performed. Interest, dividends, & rental income will not be assessed until they are received. If you report income on a cash receipts basis, when you bill clients on 30 June, assessable income will not arise until after year end.

Write Off Bad Debts

To be a bad debt, you need to have brought the income to account as assessable income, & given up all attempts to recover the dept. It needs to be written off your debtors' ledger by 30 June. If you don't maintain a debtors ledger, a directors minute confirming the write off is a good idea.

The End of the Financial Year

PAYG Payment Summaries

You need to provide all of your staff with their PAYG Payment Summary on or before 14 July 2012. This includes any staff that left your employment during the 2011/12 financial year.

As per previous years there is a field included for "reportable employer super contributions". If you make salary sacrifice or extra super contributions to a super fund for your employee, you will need to report these on your employee's payment summary. The 9% superannuation guarantee is NOT included and should not be shown on the PAYG Payment Summary.

If we prepare your payment summaries for you, please email us the information as soon as possible. The annual PAYG Payment Summary Statement for the year ending 30 June 2012 needs to be lodged with the ATO on or before 14 August 2012. However, if we are preparing your Payment Summary for you & you only employ family members in your business (closely held employees) you may be eligible for an extension.

Software

Before rolling over your accounting software for the new financial year, make sure you:

- Make a full copy of your current file
- Prepare your financial year end accounts. This way , any problems can be rectified & you have a clean slate for the 2012/13 year. Once rolled over the software cannot be amended.
- DO NOT perform a Payroll Year End function until you are sure that your payment summaries are reconciled to actual amounts paid & printed. Always perform a payroll back up before you roll over the year.

Increases to the Superannuation Guarantee rate

The superannuation guarantee rate will be increased gradually from 9% with initial increments of 0.25% points. This will commence 1 July 2013 & 1 July 2014. Further increments of 0.5% points will apply annually up to 2019/2020, when the Superannuation Guarantee rate will be set at 12%

Deferral for higher concessional contributions cap

The proposed increase to the concessional contributions cap for individuals over 50 with low superannuation balances under ($500,000) will be deferred by 2 years (commencing 1 July 2014).

Then for 2012/13 & 2013/14 **all individuals** will have a concessional cap of $25,000. In 2014 the cap is likely to increase to $30,000 through indexation.

*The Transitional concessional contributions cap of $50,000 for those who are 50 years or older on 30 June in a financial year is **only** available until 30 June 2012 & is not indexed .*

Do you want to be a millionaire? Then Start Saving.

There is some research to show that the royal road to wealth is not due to high salaries but has much more to do with a determination to save. The average American millionaire has become wealthy due to saving (Stanley & Danko, The Millionaire Next Door, 1996).

The average millionaire drives a second hand car, lives in a modest home and keeps his or her expenditure below income. The only area on which the millionaires spend real money is on their children's education.

There is no pattern to the way they invest their money.

The key is that they get the money by keeping their expenditure below income.

building futures

Super Slug for high earners to save Budget $1b

People who earn very high incomes will pay 30% tax on concessional superannuation contributions to help the government return the budget to surplus.

The new tax rate will apply to people with a taxable income of more than $300,000 which is about 1.2% of workers who contribute to super or approximately 128,000 people.

The current uniform 15% tax on superannuation contributions is designed to encourage people to save for retirement, but because it applies across all income groups it delivers an effective 30% tax concession to those in the top 45% income tax rate and only 17.5% concession to middle income earners on the 32.5% rate. After the new tax rate for very high income tax earners kicks in their effective tax concession will be 15%, slightly lower than the concession most other super contributors receive. This new tax is designed to ensure tax incentives for super are more inline across income ranges.

The new system still delivers the higher 30% tax concession to people earning more than $180,000 (where the 45% marginal tax rate cuts in) but less than $300,000.

Extract from Taylor, SMH 28-29 April 2012

Are you paying your Life Insurance Premiums through your SMSF?

Changes to the income tax deductibility of life insurance and total and permanent disability (TPD) insurance premiums have reduced the level of premium claimable by superannuation funds.

A fund may use a variety of life insurance policies to provide these benefits. Beginning 1 July 2011, the fund can deduct the following:

30% of the premium for a whole of life policy if all the individuals whose lives are insured are members of the fund.

10% of the premium for an endowment policy if all the individuals whose lives are insured are members of the fund.

For TPD insurance the ATO states that a complying super fund "can claim a deduction for an insurance premium on a TPD insurance policy paid for by the fund, if there is a connection between that payment and a current or contingent liability of the fund to provide a 'disability superannuation benefit' to its members".

In other words, the premium for a TPD policy will be fully deductible (100%) if there is certainty that the definition of "disability superannuation benefit" (i.e. any occupation) will be met at the time the claim occurs.

If the TPD cover provides for the less restrictive "own occupation" test, the degree of certainty that the payment can be made at the time of a claim is diminished. Therefore, trustees could not be certain of being able to pay a benefit under the appropriate condition of release if the TPD insurance covers the more popular own occupation definition and, as a result, would not be entitled to a full deduction of the premiums paid. In this case only 67% of the premium would be deductible.

Compulsory Reporting of Contractor Payments– Are You Ready for the Change?

From 1 July 2012, businesses in the building & construction industry need to report total payments they make to each contractor for building & construction services each year. These payments need to be reported to the ATO on a separate annual report. To make it easier to complete the annual report you may need to change the way you currently record your contractor information.

From 1 July 2012 you need to report if the following apply:

- You are a business primarily in the building & construction industry
- You make payments to contractors for building & construction services
- You have an Australian Business Number (ABN)

For each contractor you need to report their:

- ABN, if known
- Name
- Address
- Gross amount you paid for the financial year (this is the total paid including GST).

The details you report will generally be contained in the invoices you receive from your contractors.

You should make sure you record all the necessary information so you can easily report the total payments you make to each contractor by the due date each year. The ATO has developed a worksheet to record needed details. This can be downloaded from www.ato.gov.au or ask us for a copy.

The taxable payments annual report is due on 21 July each year (the first report is due 21 July 2013). The information reported will be used for data matching to detect those contractors who may not have included all their income or lodged tax returns.

Building Futures

BWR Accountants

36 Templar St Forbes

136 Clarinda St Parkes

Phone: Forbes 02 6852 1855
Parkes 02 6862 1444

Fax: Forbes 02 6852 4198
Parkes 02 6862 1990

E-mail: info@bwraccountants.com.au

visit our website:
www.bwraccountants.com.au

No-till Farming Tax Incentive

As part of the recently introduced carbon tax legislation, a Carbon Farming Futures program will be started with $429m to be spent in the first 6 years. Carbon Farming Futures will support research, measurement approaches and action on the ground to reduce emissions or store carbon, including support for conservation tillage equipment.

A refundable tax offset will apply to eligible “no till” machinery purchases from 1 July 2012 to 30 June 2015.

The machinery must be an eligible no-till seeder and can be any of the following:

1. Tine machines fitted with minimum tillage points designed to achieve minimum soil disturbance and less than full cut-out. Minimum tillage points designed to achieve minimum soil disturbance and less than full cut-out includes narrow points, knife points or inverted t points.
2. Disc openers with a single, double or triple disc arrangement.
3. Disc/tine or disc/blade hybrid machines

The seeder must be new, i.e. not previously used by anyone.

The entity purchasing the seeder must use it in a primary production business.

The refundable tax offset will amount to 15% of the cost of the new seeder. The advantage of the offset being refundable is that if the tax payer makes a loss in the year of purchase and has no tax payable, they will received a tax refund cheque for the 15% of the purchase price.

THE CATCH: the entity claiming the offset must have been issued with a “research participation certificate” for the income year in which they claim the conservation tillage tax offset. To get this certificate a “conservation tillage survey” has to be completed in the year of purchase. The survey is expected to seek information about matters such as the entity’s use of the eligible no-till seeder and associated benefits, their current farming system and management practices, as well as information around soil condition and soil management.

Depreciation can still be claimed on the new seeder in the normal way.

RAA—Natural Disaster Relief & Recovery Grants & Loans for Primary Producers & Small Business

The purpose of the grant is to provide funding to primary producers and small businesses who have suffered direct damage as a result of the March 2012 flooding, for clean up, removal of debris, disposal of dead livestock and immediate restoration. The grant is not intended to replace the need for insurance or compensate for losses of income or destroyed crop.

The grant is available up to $15,000 for clean up and immediate restoration costs, for those primary producers and businesses operating within the **Forbes Shire**.

Eligible costs include:

For Primary Producers: removal of dead stock, fodder purchases, re sowing of perennial pastures, damages to fencing, equipment, and/or plant, infrastructure, farm buildings not covered by insurance.

For Small Business: cost of clean up & restoration costs, cost of relocation to temporary premises, damage to plant & equipment, replacement to damaged or spoilt stock.

What’s not covered: damage to dwellings, loss of income from trade or from destroyed crops, damages covered by insurance, your own labour costs, all capital items purchased after the flood.

A small business has less than 20 full time or equivalent employees, is a registered business, has suffered direct damage to the premises or tools of trade, was conducting business in the disaster declared local government area and is the owner’s primary source of income (more than 50%) if the owner is the sole employee of the business.

Loans are also available to Primary Producers and Small Business owners. The loans are to a maximum of $130,000 and have an initial two year no interest and repayment option.

To access grant or loan funding you must lodge you application with the Rural Assistance Authority on or before the 31st October 2012.

If you would like help drafting your application for this grant or a loan please do not hesitate to contact our office.