

# BWR ACCOUNTANTS & ADVISERS

## JUNE 2008 NEWSLETTER



ACCOUNTANTS  
ADVISERS

### YEAR END TAX PLANNING

#### Special Points of Interest

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- Simplifying your Book-keeping with BANK-LINK p.5
- Increasing your Retirement Savings p.2

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As another income year comes to a close, it is important that taxpayers take the time to focus on tax planning and the tax issues that affect their business. Annual planning doesn't have to involve a long drawn out process, taking a few hours to identify where you are at and where you want to be can help you become more successfully in the coming year.

Key tax issues to consider include:

**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 assessable until they are received. Work in progress of professional practices will not be assessable until there is a recoverable debt. 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. If the business is distributing a dividend, pay it on 1 July, to defer the tax for 12 months. With personal tax rates falling, deferring income to the new financial year means it will be taxed at a lower rate.

**Maximising Deductions.** Tax deductions are more useful this financial year while tax rates are higher. Review bad debts, write them off and claim the bad debt deduction before year end. The ATO will also refund GST on outstanding debts of 12 months. If the debts are repaid, the refund must be returned to the ATO.

Realise foreign exchange losses and if you are able defer the realisation of gains. Bring forward the outlay of deductible expenses.

Where appropriate, value stock at a lower replacement or market value, e.g. a product may have been worth \$5000 now it's worth \$500, the difference of \$4500 can be claimed as a tax deduction. Keep a record of your livestock and/or inventory numbers to enable accurate valuations to occur. Ensure audit fees are incurred before year end.

Make a tax deductible donation to a charity.

Where you have spent more than \$1500 on medical expenses, keep the receipts to claim the offsets for these expenses.

**Superannuation.** Putting extra money and bonuses into super is still a good way to minimise tax. Ensure that employers pay all super contributions. To obtain a tax deduction the Superfund must have received and banked your contribution by the 30th June to maximise deductions.

**Blackhole Expenditure.** Review expenses and ensure any deductible "blackhole" expenditure is identified e.g. expenditure on a business plan, establishment of business premises, research, capital investment in business assets, liquidation and deregistration costs, and deal with it appropriately.

**Capital Gains Tax.** Some strategies to minimise CGT are utilising the CGT small business & retirement concessions.

Consider the availability of rollover relief for disposals to related parties.

Match gains & losses, to avoid carrying forward a capital loss. Defer a disposal to ensure the asset has been held for at least 12 months, potentially allowing you to benefit from the 50% CGT discount. Review the cost base of assets to ensure all expenditure available under the expanded definition is included. Such expenditures include certain selling costs, capital costs of ownership and expenditure to preserve, move or install assets.

**Bonuses.** Staff bonuses are tax deductible even if they are not paid before 30 June, however you must prove intention to pay the bonus to claim the deduction. If your employees are eligible to receive a bonus, ensure you establish a clear & binding commitment to the expense at the time. This commitment can be shown through the employment contract, or a formula where the bonus is not subject to management's discretion.

**Trust Distributions.** Make sure a trustee resolves to distribute the net income of the trust before 30 June 2008. Take into consideration that year end trust distributions & income injections may affect a trust's ability to recoup prior year losses & bad debt deductions.

## MAKING THE MOST OF YOUR SUPERANNUATION

Saving for retirement is good future planning. To make Superannuation even more attractive the federal government changes in the form of "Simple Super" last year have meant that people over 60 yrs are able to receive tax free benefits on lump sum or pension payments.

### POST TAX CONTRIBUTIONS

This financial year you can contribute up to \$150,000 in after tax dollars if you are under 65. You won't pay any extra tax, as this is a post tax contribution.

Alternatively, after tax lump sum contributions of \$450,000 can be made once every 3 yrs for those under 65 years of age. For those aged between 65 and 75 years you must pass the work test, namely you've worked 40 hours within 30 consecutive days and you are aged over 65 yrs you can make after tax contributions to super.

### BUSINESS

Superannuation can be an attractive strategy for business owners as it can minimize the tax you pay on your in-

come and help build wealth outside your business. Business owners will need to stagger their after-tax contributions to ensure they don't exceed the \$450,000 limit for any 3yr period.

Non-business owners who have accumulated assets, such as listed shares can transfer the proceeds into their super fund and take advantage of the more generous tax concessions. This may only be available to certain types of super funds (Self-managed) and Capital Gains Tax and stamp duty may apply to the transfer of assets. Also please be aware that the conditions imposed by the Superannuation Legislation must be met.

### CO-CONTRIBUTIONS

Those who are individuals who earn less than \$58,980 per year qualify for the government's co-contribution scheme. The co-contribution is apportioned to gradually reduce in value as your income increases. If you are earning below \$28,980 per year the government will match \$1.50 per \$1 of your contribution to a maximum of \$1500. This progressively reduces to nil as your income reaches \$58,980.

### SPOUSE CONTRIBUTIONS

Spousal contributions can be a tax efficient way to save for retirement. If your spouse earns less than \$13,800 in a full financial year, you may be able to contribute for your spouse and receive a tax offset by doing so. A maximum rebate of \$540 (18%) is available on contributions up to \$3,000.

### PRE TAX CONTRIBUTIONS

Through salary sacrificing or through your business you can contribute up to \$50,000 in pre tax dollars if you're under 50 yrs or \$100,000 if you're over 50 this financial year. People over 50 yrs can claim a full tax deduction on \$100,000 per year for the next 5 years (between 1 July 2007 and 1 July 2012).

For the self employed the Simple Super Rules means you can claim a full tax deduction on your contributions this year, a potential increase in deduction of \$8,000 when compared with the eligible deductions of the previous financial year.

## *Changes to the 2008/09 Federal Budget: AN OVERVIEW*

Key changes from 1 July 2008:

◇ Income tax rate reduction.

◇ Medicare levy surcharge thresholds will increase for singles, from \$50,000-\$100,000. For family members from \$100,000-\$150,000.

◇ The definition of a family in the family trust election rules will change, limiting lineal descendants to children or grandchildren.

◇ An income test will be introduced for the Entrepreneurs Tax Offset (ETO).

◇ Introduction of a 50% Education Tax Refund on eligible education expenses.

◇ Employee share scheme— the value of the discount (where it exceeds \$1,000) is included in assessable income if a taxpayer elects to be assessed up front.

◇ Income testing of childcare benefits will be introduced for those parents who use approved care. Registered care will not be subject to income testing.

◇ The tax deductibility of contributions & gifts made by individuals & businesses to political parties, members & candidates will be removed.

◇ The luxury car tax rate will increase to 33% (from 25%).

◇ Eligibility for dependency offset tightened.

◇ Childcare tax rebate for out of pocket childcare expenses will increase from 30% to 50%

## BORROWING THROUGH YOUR SELF MANAGED SUPERFUND— BEWARE

You may have heard about the changes allowing self managed superannuation funds to borrow in the form of installment warrant arrangements.

The key requirements of the borrowings are that:

- \* They are applied to the acquisition of an asset.
- \* The fund must be permitted to acquire the asset.
- \* The asset must be held on trust.
- \* The fund must have beneficial interest in the asset.

\* The loan is limited in recourse to the asset only.

\* The asset would not be an in house asset.

A benefit of borrowing for a superfund is the acquisition of a commercial premises. This type of arrangement will require a trust deed to be drawn and the borrowings will need to comply with all aspects of the legislation. The limited recourse requirement means any borrowings can only be secured against the asset being acquired. Because of the requirements, these arrangements require time and planning. There are also a number of

costs involved which means in some cases it may not be a viable proposition.

If you think you might be able to take advantage of these new provisions it is a good idea to come and talk to us, as soon as possible. We need to ensure that what you are looking to do is permissible under the legislation and then that there is a real benefit for you and your superfund. However this is a very complex area and requires specialist legal advice. The ATO has issued an alert on this topic highlighting the complexity and dangers of such borrowings.

## SUPERANNUATION – SALARY SACRIFICING

If you had the chance to pay less tax you would take it, right?

Salary sacrificing is a great way to save the amount of tax you pay and increase your retirement savings.

Every dollar you earn between \$25,001-\$75,000 is taxed at 30% before being paid to your pocket.

Every dollar sacrificed into Super is taxed at only 15%.

For example, without salary sacrificing \$100 gross taxable income becomes \$70 in your pocket or if you did salary sacrifice superannuation it would be \$85 in the superfund.

If you are interested in taking this opportunity to increase your Super balance & save your tax bill, you need to arrange a salary sacrificing plan with your employer.

## SME's on the Tax Office Hit List

### Individual TAX RATES

2007/2008

Taxable Income	Tax on Income	% on excess
\$6,000	\$0	15%
\$30,000	\$3,600	30%
\$75,000	\$17,100	40%
\$150,000	\$47,100	45%

*The Medicare levy (1.5% of taxable income) and Medicare levy surcharge (an additional 1% of taxable income) may be payable on top of the above rates*

This year the tax office has identified a few areas of focus. For small to medium enterprises (SME's) 3 key issues exist.

**Company income**– the tax office will be looking at the income you declare relative to that of your business and its related entities. A prominent area to be investigated will be company loans to shareholders.

If your business has outstanding company loans to shareholders, be wary of Division 7A. If your company has an outstanding debit loan, you need to decide how you will manage this. You may need to document the loan agreement. If you already have a loan agreement then make sure that you make the minimum loan repayments before 30 June.

**Company losses**– the tax office has stated it will deny claims of a loss where the origins of that loss cannot be proved or where losses claimed are from a related party that is not part of a consolidated group. Other identified problem areas include where you have a mix of carry forward capital and revenue losses and you attempt to claim all of the losses against the revenue profits. Capital losses can only be offset against capital gains.

**GST integrity**– GST on property transactions is a continuing focus for the ATO. Areas include unreported property sales, particularly of new residential premises. Valuations used under the margin scheme. Incorrect reporting of adjustments arising from a change in the extent of creditable purpose and incorrect treatment of supplies to associates. Where GST refunds are high or above an industry standard and where falsified or over inflated invoices have been used to generate higher refunds the Tax Office will also be directing its focus.

## Learning the ABCs of growth

When ABC Learning Centres (ABC) revealed a 42% fall in half-year earnings to \$37.1 million their share price was in trouble. The news that a number of the directors including CEO, Eddie Groves were subject to margin calls on their shareholding triggered a major sell off with prices plunging by as much as 70%. The company suspended trading on 28 February, allowing for a joint venture brokered with Morgan Stanley Private Equity for the sale of 60% of its US business for \$775 million. The JV which is expected to complete by April will enable the company to reduce their syndicated bank debt by \$750 million.

Market speculation and rumour surrounding a potential breach of financial covenants requiring the company to maintain a minimum capitalisation of \$2 billion continued despite the company's fervent denial. The media maintained the message that the company simply 'grew too fast too quickly'. Off the back of a dropping share price Eddie Groves and his estranged wife received margin calls to pay up, sell, or secure the margin against other assets. Groves did not respond to the margin call and as a result, the collateral stock was sold by Citigroup's margin lending department. A second margin call left Groves with just under four thousand shares.

While the market's concern about ABC's financial position may not have been accurate, the high octane growth of ABC from Australian success story to international conglomerate was enough to fuel the uncertainty. The aggressive push into the US through strategic acquisitions saw ABC become the number two child care operator at a cost close to A\$800 million.

The consolidation and investment in the child care industry is a vision shared by more than just Eddie Groves. Last May, Temasek Holdings, the Singapore Government's investment vehicle paid \$400 million for a 12% stake in the company.

Maintaining the balance between debt, growth and opportunity is an issue that affects all business people regardless of size. In ABC's case the market appeal of the stock was its growth profile. This same profile elevated the risk of the stock, and the market allowed no room for error.

Every year, hundreds of small and medium sized businesses deal with the same issue. Surely growth is good and more is better.

The typical SME entrepreneur chases growth with a passion, but doesn't always have a good eye for risk. This risk will typically:

- ▶ Significantly increase the cost of funds;
- ▶ Limit the business' ability to take up new opportunities;
- ▶ Cause the failure of the business; and
- ▶ Expose the owners to significant personal loss.

The key to managing risk is to be able to identify the early warning signs. Once you recognise them, the next step is to do something about it; even if that means taking the foot off the business growth accelerator and consolidating your position for a while.

### Measuring by the numbers

While there are no absolutes there are ways that you can test your level of risk. Often your financial statements will tell the story. Here are some quick ratios to help you understand where you stand:

**Debt to equity ratio** - ideally no more than one to one. When you have more of the bank's money than your own in the business, this is a sure sign of an increased risk exposure.

**Interest cover** - how many times does your net profit cover your interest bill? Three times cover should be considered a minimum.

**Working capital ratio** - this is your current assets divided by your current liabilities. Ideally this should be better than 2:1. Below 1.5:1 is a warning sign and less than 1:1 means your business is at risk.

**Net profit to revenue ratio** - this will vary depending on the type of industry you are in. Normally, it will sit somewhere between 5 - 20%. Less than 5% is another risk sign.

Keep in mind that growth is not the only driver of risk. If you have tested yourself against these numbers and the results don't look good this does not automatically mean that you are growing too quickly. It could mean that you don't have enough capital or there is something wrong with your indicators. Indicators in our current market suggest that economic conditions could get a bit rocky.

Interest rates are pushing upwards, and there are signs that inflation and the sub prime debt problems may cause a flow through with credit being assessed more tightly. Don't get caught in the belief that good business conditions will just keep getting better. Most markets work in cycles and trading conditions will change.

Yes, growth is good, but it needs to be managed. Balance your growth while keeping a close eye on your risk position.

Quality businesses often emerge in tougher markets and great opportunities present themselves if you are ready to take them.

If you need advice on how your business is travelling, call us. A quick business health check could save you from problems down the track. It's as simple as ABC.

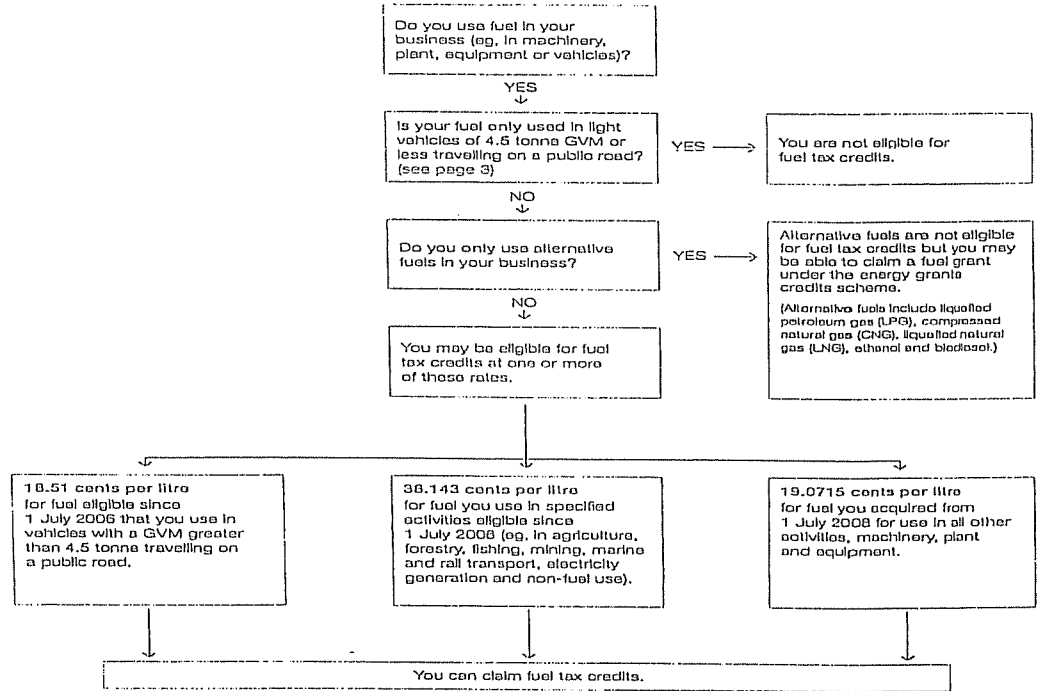
**A QUICK BUSINESS HEALTH CHECK COULD SAVE YOU FROM PROBLEMS DOWN THE TRACK.**

from **1 July 2008**

Fuel tax credits are a rebate for the fuel that is used in business activities, machinery, plant, Equipment, and heavy vehicles.

You must be registered for GST and Fuel Tax Credits before you can make a claim on your BAS.

CAN YOU CLAIM FUEL TAX CREDITS?



## BANKLINK TRICKS & TIPS when CLAIMING GST

When coding your Banklink transactions for your BAS we have a few handy tips to remember.

- For sales or purchases of livestock make note of the livestock numbers in the quantity column. We request that you supply us with the Agent's invoice.
- Selling expenses are separate from sales income. There are some selling costs that include GST and others don't. Please be aware of these and dissect selling expenses accordingly.
- When coding Motor vehicle expenses please be aware that registration (RTA) is GST exclusive. If you have a private

% usage this needs to be dissected and GST is not claimable for private use.

- Rates & Taxes account does not include income tax, BAS payments or fines. You can't claim fines. Income tax & BAS payments/refunds should be coded to GST clearing account 899.
- If you have business and private usage for your telephone and electricity please dissect these accounts accordingly and remember you can't claim GST in your BAS for private usage.
- The GST on insurance expenses is not normally 1/11th of

the total. Please check the invoice for the correct GST amount.

**The Rates & Taxes account doesn't include income tax, BAS payments or fines.**

- When you make a Capital Purchase, please provide us with the relevant paperwork.

• Please be aware that some government subsidies do contain a GST component.

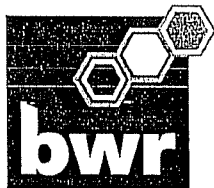
For example the Interest Rate Subsidy (Exceptional Circumstances). Please check your *Recipient Created Tax Invoice* to be sure and keep this in mind when coding the income in your Banklink transactions.

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Website up & running soon

## SPEND LESS TIME ON YOUR BOOKWORK, AND DO MORE OF THE THINGS YOU LIKE BEST

### WHAT IS THE BANKLINK SYSTEM?

*The Banklink System is used by us to complete our clients' bookwork efficiently and accurately. Banklink provides information for over 200,000 business bank accounts just like yours every month.*

*Banklink works by collecting an electronic copy of your bank statement data (once you have given permission of course) directly from your financial institution, and delivering it straight to your Accountant.*

### THE **BankLink** SYSTEM



Your business makes transactions

The transactions are recorded by your bank and other financial institutions

Your Accountant receives the transactions electronically and uploads this data into their general ledger system

You receive your completed GST & Tax returns, plus financial reports

## Drought Support Funding Boost

A media release from the Minister of Primary Industries (30 May 2008) has reported that the State Government will spend an additional \$6 million in drought funding for the continuation of essential support services for affected farmers.

The minister, Ian Macdonald has quoted figures (for the month of May) of 63% of the state still being in drought.

The announcement for a boost in funding ensures the continuation of the popular scheme until at least August. This hopefully will assist in the essential transport of livestock to and from agistment, to sale or slaughter, and the transportation of fodder and water supplies.

Another outcome for the NSW Government's boost to funding is to ensure there is ongoing assistance for small businesses affected by drought, through the implementation of the Business Drought Assistance

Payroll Tax relief Program for the 2007/08 financial year payable in 2008/09.

For further information and to check for your eligibility contact the NSW Rural Assistance Authority on free call 1800 678 593 or email:

[rural.assist@raa.nsw.gov.au](mailto:rural.assist@raa.nsw.gov.au)