

# PAINLESS TAX TIPS FOR BUSINESS



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PRINCIPAL

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better advice for a better life

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## Topics to be Covered

- Essentials for business to make meeting compliance obligations as “smooth as possible”
- An overview of the recent Federal Budget including taxation matters specific to businesses and their owners
- Tax planning matters to be considered leading into 30 June 2011

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## Smoothing the Compliance Efforts for Business

**UNDERINVESTMENT IN COMPLIANCE SYSTEMS WILL  
RESULT IN AN EVEN GREATER INVESTMENT TO ADDRESS  
THE ISSUES THAT ARISE**

## Smoothing the Compliance Efforts for Business

- As everyone would be aware - failing to maintain a smooth compliance programme for any Business can be a costly exercise (time, effort, stress and financial costs can arise).
- Encourage all Businesses to be proactive and invest in their Compliance Systems – irrespective of business size.
- Many standard requirements can be systemized with set arrangements in place to ensure little or no compliance crisis will arise.

## The Essentials

- “The Essentials” – some guidance re what is required if you are wanting to make meeting your taxation obligations as simple as possible

## The Essentials cont

- Ensure that Directors/Management understand the Business Structure thoroughly
- Ensure that all administration staff understand the Business Structure thoroughly
- Structures can be foreign to many staff yet they are entrusted with keeping business records, engaging with customers and suppliers etc

## The Essentials cont

- Understand and document the compliance obligations of the Business with a scheduled annual review of this document
- Ensure that Directors and Management understand the compliance obligations thoroughly and the penalties for failure to meet these obligations (increasing penalties for failure to meet obligations are being introduced regularly)
- **THE MOST IMPORTANT ISSUE** - Identify the skills required and whether training of existing staff or additional resources will be required

## The Essentials cont

- Ask questions of your Accountant / Tax Adviser as issues arise throughout the year.
- Whether they charge you or not, keeping your Accountant / Tax Adviser well informed of the activities of your Business is a must and will ultimately save you the costs of them sorting out a crisis during your Business life.

### Example – “Downside of not checking the tax options”

- Business operated for 18 years with business value of \$2m is to be transferred from one generation to the next (no cost of business as a start-up venture)
- Rapid growth has turnover and asset values of the owner about to go beyond those for which the small business CGT concessions would be available.
- Deferral of transfer of business may result in up to \$465,000 in tax being payable which could otherwise be reduced to nil if the small business CGT concessions were utilised.

## 2011-2012 Federal Budget

Review of a few points relevant to business and owners out of the  
2011-2012 Federal Budget

## “A Conservative Approach”

- 2011-2012 Federal Budget was not one for announcing big tax reforms or unexpected expenditure shocks
- A clear “Back-To-Work-Budget”
- Indications from the Federal Government that the Australian Economy is Still in Good Shape
- Buried within the Budget Details are some seemingly “small” announcements that may have extensive implications for many including the small to medium business market
- Presentation today will outline our thoughts on these announcements and other developments which need to be considered

# Highlights

## Highlights for Individuals

- Flat 20% statutory method for calculating FBT on cars.
- No self deductions allowed against government payments
- Discounts on upfront payments for HECS cut in half
- Medicare levy low income thresholds increased
- Phase out of dependent spouse rebate for spouses under 40
- Entrepreneurs tax offset to be removed
- Low income tax offset - 70% to be available through weekly pay.

## Highlights for Individuals (continued)

- Removal of low income tax offset for minors with passive income.
- Education tax refund to include uniforms (previously announced)
- FTB A- align benefit for 16-19 year students with 13-15 years, remove 22+ students and freeze threshold increases.

## Highlights for Business

- Immediate \$5,000 small business tax deduction to purchase a new vehicle.
- Company tax loss rules – continuity of ownership test amendment.
- Company tax rate reduction to continue – Small business 28% in 2013 for others 29% in 2014, 28% in 2015
- Pay as you go instalments GDP adjusted method reduced from 8% to 4%.
- Super guarantee liabilities to be included in director penalty notice provisions. 21 days grace removed for debt recovery action.

## Highlights for Business (continued)

- Directors unable to personally claim withholding credits where company fails to pay the withholding debt.
- New contractor reporting requirements for building and construction and possible commercial cleaners.
- Script for scrip rollover integrity provisions to apply to trusts & super funds.
- GST net refund taxpayers able to access instalment option

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## Further Detail on Specific Highlights

### **Crackdown on Fringe Benefits Tax on Company Cars**

- The existing statutory fractions ranging from 7% to 26% will be replaced with flat 20% when working out the taxable value of a car fringe benefit using the “statutory formula” method. This will be phased in over 4 years.
- Under the “statutory formula” method, the taxable value of a car fringe benefit depends on the relevant statutory fraction applied to the cost of the car. Currently, this statutory fraction decreases as the distance travelled by the vehicle increases. The new flat rate of 20% will apply regardless of the distance travelled during the year, removing the incentive for people to drive more than necessary to access higher tax concessions.

## Fringe benefits Tax

- The 20% flat rate will only apply to new vehicle contracts entered into after 7:30 pm (AEST) on 10 May 2011, and will be phased in over four years.

### Distance travelled during the FBT year

(1 April – 31 March) From	10/5/11	1/4/12	1/4/13	1/4/14
0 – 15,000 km	0.20	0.20	0.20	0.20
15,000 – 25,000 km	0.20	0.20	0.20	0.20
25,000 – 40,000 km	0.14	0.17	0.20	0.20
More than 40,000 km	0.10	0.13	0.17	0.20

## Fringe benefits Tax

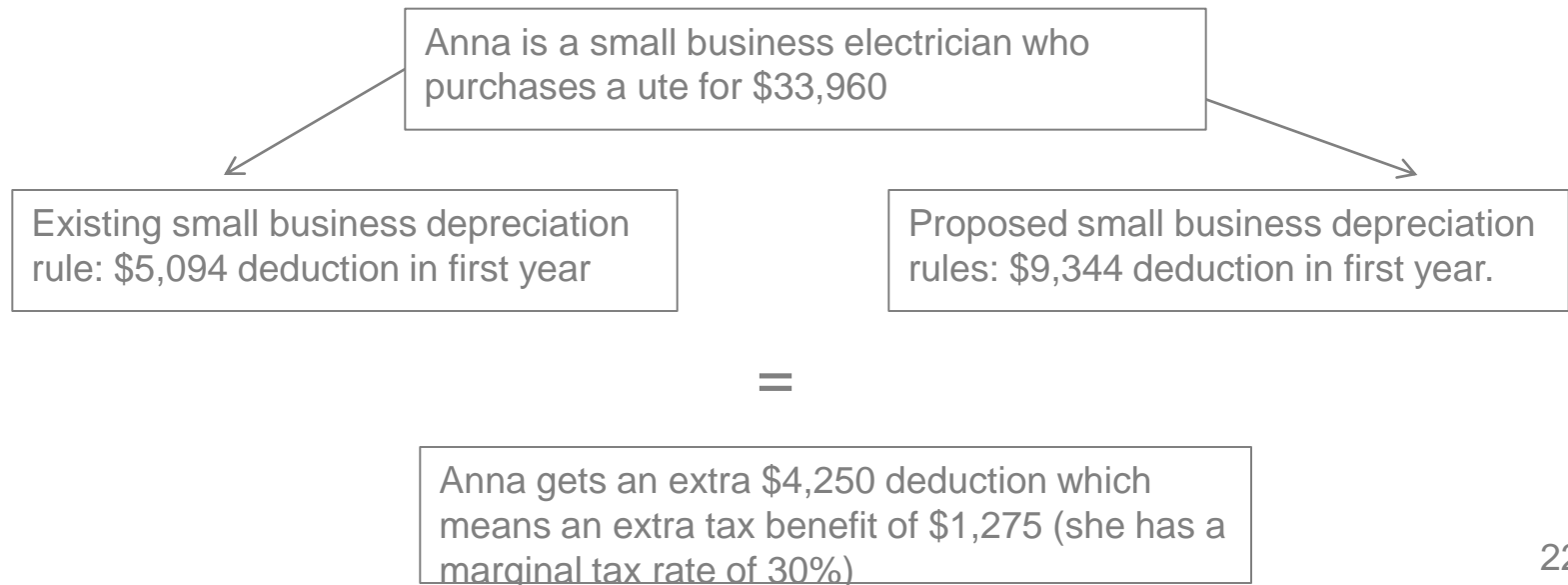
### Example:

Steve has a motor vehicle with a value of \$35,000 that is purchased on 11 May 2011. If he travels a total of 45,000km per year his fringe benefits tax payable using the statutory method will be as follows

2011/2012	\$1,445 (note only 324 days)
2012/2013	\$2,116
2013/2014	\$2,737
2014/2015	\$3,255

## Immediate \$5,000 Deduction

- The Government will allow small businesses to claim up to \$5,000 as an immediate deduction for motor vehicles acquired from 2012-13.
- The remaining cost is depreciated at 30 per cent (15 per cent in the purchase year), which was the previous treatment for the entire cost of the motor vehicle.



## Self education expenses

### Deductions against Youth Allowance payments denied

- *FCT v Anstis 2010 ATC 20-221*
- The law will be amended to disallow self education expenses against all government assistance payments
- Note: For 2006/07 to 2009/10 tax years the Commissioner will allow automatic deduction of \$550.00 or higher (if substantiated)

## IMPORTANT ISSUE FOR EMPLOYERS AND EMPLOYEES

- Flood Levy previously announced commences on 1 July 2011
- Certain categories of taxpayers are exempt from the Flood Levy (including individuals eligible for financial assistance package)
- Eligible individuals are able to lodge claims for financial assistance up to August 2011
- Employees will need to provide declarations claiming exemption from the Flood Levy so that their employers do not withhold the levy unnecessarily from their salary and wages

## Director's liabilities

From 1 July 2011, Director penalties regime to include:

- Making Co. directors personally liable for unpaid employee superannuation
- Director's prevented from claiming withholding credits in their personal tax return if company has withholding amounts owing to ATO.
- ATO power to commence recovery action without providing 21 days grace period for certain unpaid company liabilities that remain unreported for three months becoming due.

## • Farm management deposits and natural disasters

- Primary Producers affected by **natural disasters** can access their farm management deposit within 12 months of making the deposit without losing their concession tax treatment under the scheme.

## HECS, Higher Education Discount

As of 1 January 2012:

- Student contribution up-front payment discount will be reduced from 20% to 10%
- Any bonus voluntary payments made to the ATO of \$500.00 or more will be reduced from 10% to 5%.

## • PAYG Instalment (Deferral of Final Tax Payments)

### **PAYG Instalments**

- The GDP adjustment factor for PAYG instalment taxpayers who use the GDP adjustment method will be reduced from 8% to 4% for the 2011/12 income year.
- The GDP adjustment method is used by the overwhelming majority of taxpayers required to pay quarterly income tax instalments, mainly small businesses, but also some individual investors, certain trustees and small superannuation funds.

## Reduced Company Tax Rate

- Company Tax – reduce to 29% from 1 July 2013 rate and to 28% from 1 July 2014
  - Early reduction to 28% for eligible small business from 1 July 2012
  - Same as announced last year

### **Personal income tax — increasing the Medicare levy low-income threshold**

- Increasing the Medicare Levy low income tax thresholds to \$18,839 for individuals and \$31,789 for families, with effect from 1 July 2010.
- The Government will also increase the Medicare levy threshold for single pensioners below Age Pension age to \$30,439, with effect from 1 July 2010.

## **Dependent Spouse Tax Offset — phase-out**

- The Government will phase out the dependent spouse tax offset (DSTO) for taxpayers with a dependent spouse born on or after 1 July 1971.

## **Abolish the Entrepreneurs' Tax Offset**

- The Government will abolish the Entrepreneurs' Tax Offset (ETO), with effect from the 2012-13 income year.

### **Low Income Tax Offset — bring forward**

- The Government will increase the amount of the low income tax offset (LITO) that is delivered to low and middle income earners through their regular pay during the year from 50 per cent to 70 per cent of their total entitlements. The remaining 30 per cent of their LITO benefit will still be paid as a lump sum on assessment of income tax returns. This adjustment will deliver up to \$300 in more timely tax relief to low and middle income earners in the workforce. Individuals' total LITO entitlement in any one year remains unchanged. This measure will have effect from 1 July 2011.

## Removal of Low Income Tax Offset for Minors

- Will be a material issue for profitable businesses which operate through trust structures and who have the ability to distribute to beneficiaries who are minors.
- The proposal will see the removal of the ability for Trusts to distribute income to minors where the first \$3,000 (approx) is essentially tax free (ie due to the removal of access to the low income offset for minors on passive income)

## Education Tax Refund and Family Tax Benefits

### **Enhancing the Education Tax Refund**

- The government is extending the education tax refund to cover school uniform expenses from 1 July 2011
- As per previous years you need to be eligible for Family Tax Benefit Part A

### **Enhancement of Family Tax Benefits for 16-19 year olds**

- The government is increasing the family tax benefit payments for 16-19 year olds (but removing any benefit for the 21-24 age bracket)

## Family Tax benefits- max rates

### Existing rates

For each child	Per fortnight	Per year
Under 13 years	\$160.30	\$4,905.60
13–15 years	\$208.46	\$6,161.20
16–17 years	\$51.24	\$2,062.25
18–24 years	\$68.74	\$2,518.50

## Family Tax benefits- max rates

### Budget changed rates

For each child	Per fortnight	Per year
Under 13 years	\$160.30	\$4,905.60
13–19 years	\$208.46	\$6,161.20
20–21 years	\$68.74	\$2,518.50

## Changes to How Trusts are Taxed

Prior to the budget the government released two exposure drafts which addressed a number of issues in relation to how trusts are taxed.

- Legislation to partially correct position for primary production trusts is in draft.
- Importantly for many businesses - capital gains and dividends will be taken out of the trusts provisions and dealt with separately in the Act to allow use of “streaming” for these categories of income where deeds allow.
- An integrity measure will be introduced to prevent the abuse of tax exempt beneficiaries.

## Now here is the hidden Gem

- Free Installed Set Top Box for those on Full Aged Pension (up to \$400) *why not buy them a new TV!*

## Items from 2010 Budget Yet to Be Legislated

- Phase in Increase in SG from 9 per cent to 12 per cent
- Increase in the SG Age from 70 to 75 years
- Income Test on Private Health Insurance Rebate – Treasury officials have confirmed that the Government is still planning a bill to income test the private health rebate

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# Changes to Superannuation

## Changes to Superannuation

- Changes to Contribution limits from 1 July 2012
- Excess concessional contributions able to be refunded
- Co Contribution Thresholds Frozen
- Employees to be advised about contributions
- Account Based Pension – Changes to the pension payments from 1 July 2011
- ATO Levy Increase for SMSF

## Superannuation Contributions Thresholds

Current Superannuation Contributions Caps for 2011 and 2012 Financial Years

<b>Age of Member</b>	<b>Concessional Contribution</b>	<b>Non-Concessional Contribution</b>
< 50	\$25,000	\$150,000 **
50 +	\$50,000	\$150,000 **

\*\* Bring Forward allowed to maximum of \$450,000 to members < 65 yrs of age

## New Contribution Thresholds

From 1 July 2012 the new Concessional Contribution limits will be as follows:

<b>Age of Member</b>	<b>Account Balance of Member &lt; \$500,000</b>	<b>Account Balance of Member &gt; \$500,000</b>
< 50	\$25,000	\$25,000
50 +	\$50,000	\$25,000

No changes proposed for the non-concessional contribution thresholds at this stage.

## Refund of Excess Concessional Contributions

- Option to have Excess Concessional Contributions refunded from your superannuation fund and assessed as income at your marginal tax rate rather than incurring contributions tax
- Applies only for contributions up to \$10,000 (not indexed)
- Only applicable for contributions made after 1 July 2011
- Excess contributions are taxed at 31.5% plus the normal 15% contribution tax paid by the super fund
- Could save on potential breach of nonconcessional contribution limits and the penalties imposed when that happens.

## Co Contribution Income Thresholds Frozen

- The Government has announced that it will extend the freeze on indexation of the co-contribution income thresholds to 2012/13. Therefore, the lower and upper co-contribution income thresholds will remain at \$31,920 and \$61,920 respectively until 30 June 2013.

## Notify Employees Super Paid

- The Government has reconfirmed its election commitment to ensure employees receive information through their pay slips on the amount of super contributions paid into their super account.
- In addition, the Government plans to require super funds to notify employees and employers on a quarterly basis if regular contributions cease.

## Pension Payments

- From 1 July 2011 (2011 / 2012 FY) the minimum pension payments for account based pensions, allocated and market linked pensions will be reduced by 25%
- Past 3 years have had a 50% reduction in the minimum pension
- From 1 July 2012 (2012 / 2013 FY) minimum pension payments return to normal prescribed percentages

## ABP Pension Percentages

Age	Minimum Annual Payment		
	2010/2011	Proposed 2011/2012	Proposed 2012/ 2013
<65	2%	3%	4%
65 – 74	2.5%	3.75%	5%
75 – 79	3%	4.5%	6%
80 – 84	3.5%	5.25%	7%
85 - 89	4.5%	6.75%	9%
90 – 94	5.5%	8.25%	11%
95 +	7%	10.5%	14%

## ABP Pension Percentages

### Minimum Annual Payment if Balance is \$1,000,000

Age	2010/2011	Proposed 2011/2012	Proposed 2012/ 2013
55- 64	20,000	30,000	40,000
65 – 74	25,000	37,500	50,000
75 – 79	30,000	45,000	60,000
80 – 84	35,000	52,500	70,000
85 - 89	45,000	67,500	90,000
90 – 94	55,000	82,500	110,000
95 +	70,000	105,000	140,000

## ATO Levy Increase for SMSF

- The Government will provide \$40.2 million (including \$4.2 million in capital) over five years to the Australian Taxation Office (ATO) and \$8.4 million over four years to the Australian Securities and Investments Commission (ASIC) to implement a range of measures relating to the self managed superannuation fund (SMSF) sector.
- The cost of this measure will be offset by a **\$30 increase to the SMSF levy** with effect from the 2010-11 income year, raising \$47 million over four years, and the introduction of SMSF auditor registration fees from 1 July 2012, raising \$1.8 million over four years.

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# 30 June 2011 Tax Planning Matters

## Tax Planning Opportunities

- With the slower economy and some industries experiencing large cashflow issues, there could be an argument that tax planning opportunities are not on the priority list for many.
- One matter to consider is that with cashflow issues so prevalent – leakage in unnecessary or earlier tax payments is even more undesirable than ever.

## Tax Planning Opportunities cont

Standard tax planning matters should be addressed by all

For example:

- ensuring superannuation is physically received by funds prior to 30 June 2011
- Reviewing aged receivables and writing off bad debts for taxation purposes
- Assessing trading stock valuations
- Identifying prepayments that may be made (for eligible small businesses only)

## Tax Planning Opportunities cont

- Keeping in mind the upcoming changes in deductible superannuation limits, decisions between making contributions before or after 30 June 2011 should be considered carefully.
- Importantly for businesses contemplating restructures for sale, efficiencies or other commercial reasons should consider these carefully while the economy is still restarting (ie while turnover and valuations may be lower than they will be in future years).
- Some important changes to land rich duty provisions will also commence on 1 July 2011 which may have serious implications for restructures before and after this date.

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