Newsletter

JUNE 2011

Welcome to the June edition of our newsletter. The financial year has almost come to a close. Once again it has been busy year for us, and we have had a number of staff changes this year as well.

Katie Hay has us left to fulfil the role of motherhood. We wish Katie and Josh well and look forward to meeting their new arrival, Mackenzie, very soon. Sharon Dwan has left to take up a position in her family business. Russ Brodrick has joined our team as a part time bookkeeper and on the 1ST of July, Scott Glasby will commence full employment as a bookkeeper. Welcome to the team boys. Peter and Mark are glad to see the gender balance even up a little.

At long last the extensions have been completed upstairs, and our bookkeeping staff have settled into their new environment. You are very welcome to call in and have a look around.

We look forward to working closely with you and your business in the new financial year.

Tax Planning

Last minute tax planning can be a recipe for poor decisions and you need to work through the cash flow implications on anything you decide to do. There is no point saving some tax if you create a cash flow crisis in the process. Tax planning these days' falls into three baskets:

- Health & hygiene;
- Timing & efficiency
- Permanent Savings.

Health & Hygiene

There's no excuse for any business, regardless of size, for not completing a health and hygiene review prior to year end. This review is about making sure that your business has attended to its tax housekeeping. Included in this are:

- Writing off any damaged or obsolete stock;
- Writing off any bad debts;
- Scrapping and obsolete plant and writing it off your asset register;
- Ensuring any loan payments necessary to satisfy Division 7A loan agreements are made
- Complete any inter entity management charges.

All of these actions need to be taken before June 30 and your accounts need to reflect that the actions were completed e.g., a bad debt that is written off should be reversed out of your debtors ledger before June 30.

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Timing & Efficiency

Managing timing and efficiency is about causing your tax liability to fall at the best time for you. You do this by bringing forward expenses or deferring income. The efficiency part is about ensuring that tax is being paid by the entities or people where you can enjoy preferential tax rates. Think about the following:

- Declaring bonuses before June 30, even though they may not be paid until after that time;
- Declaring director's fees;
- Ensuring June quarter Superannuation Guarantee Charge (SGC) payments for employees are made before June 30;
- If you are a Small Business Entity (SBE), prepaying some of your expenses before June 30;
- Paying dividends;
- Committing to necessary consumable expenses pre June 30;
- Making Trustee resolutions to distribute trust income;
- Deferring income until after June 30, where possible;

Some of these strategies revolve around deferring income to the following year and bringing forward expenses and tax deductions into the current year. Don't always accept this as the right strategy. If you are in a start-up business and not generating a profit yet, you may not want to defer your taxing point. While saving tax always seems like a good idea consider the rate of the tax saving. It will be a mix of personal and possibly company tax rates. Saving a tax dollar this year where the benefit may only be 20 cents in the dollar, is poor economy if next year you will pay 46 cents on the same tax dollar. Tax timing requires you to have a view about your current year position and any differential position for the following year.

Permanent savings

Permanent savings always sound attractive but you need to have the cash flow to manage them and be comfortable with both the short and long term outcomes. These strategies include:

- Maximising your superannuation contributions;
- Donations; and
- Consider holding your life insurance through your superannuation fund.

Keep your cash flow position in mind. You need to work out the cash flow effect of any decisions you might take. The more available cash you have, the easier it will be to make all of this work. Now is the time to start following up your debtors and chasing some of those old accounts.

ATO benchmarks – what you need to know

The ATO use industry benchmarks to assess business performance and will take a closer look at businesses that fall outside of these benchmarks. But what happens if you have a niche business or have unusual trading conditions that mean you will almost never fall within these benchmarks?

This is the major problem with the current benchmarking approach. The ATO has a huge data base of information on business performance. When you lodge your business income tax return we need to include an industry code that is the closest match to your business. It is through the matching of data against common industry codes that the ATO builds it benchmark information and is able to statistically establish ranges for what is normal. With a lot of businesses however, there is no such thing as normal.

Even where you operate a business that is relatively homogenous and similar to a lot of other industry participants you may have multiple revenue streams within the business that cause differences. So, whether or not your business is within the normal range for your industry code can be irrelevant. You should not be trying to work to any pre determined performance range. Drive your business to produce the very best results possible.

At year end we review of your position and make recommendations in relation to this. If there are any surprises, it is better to hear it from a friendly source. This would also allow you to fix up any system gaps that exist and be better prepared if the ATO comes calling.

Knowing when to change your business structure

For successful businesses, simple business structures often do not work. They leave you risk exposed, are ineffective for tax purposes, and are not efficient for succession or sale. In the early stages of business life the philosophy often is; keep it simple and low cost. This may mean trading as a sole trader, in partnership, or through a simple company structure. Where the business stays small this can be entirely appropriate and may serve you well for the lifetime of the business.

However, if your expectations are greater than this, or if you can see that your business is likely to grow in a significant way, then you will need to change structure at some stage. Successful fast growth businesses typically operate through a mix of company and trust structures. These structures are not for show. They create separation, tax efficiency, help to risk manage your business interests and allow for orderly transfer at the appropriate time.

The challenge is; when is the right time to put in place a more efficient structure? The answer is the earlier the better. Change comes with a cost. You can be exposed to capital gains tax and stamp duty, and this can be expensive and a distraction from the main focus of your business growth.

There are some ways to manage the tax costs associated with a change in structure. The first thing to do is to identify the structure that is right for your business. From there, quantify the cost of any change and the best way to put it into effect.

If you would like to ensure that your business structure is right for you now and in the future, talk to us today.

YOUR SMSF AND BORROWING

Knowing what assets your Self Managed Superannuation Fund (SMSF) can own is an important part of being a fund trustee. You should also know what assets your fund can acquire from you or related parties. New rules recently introduced may give more scope for your SMSF to borrow funds to acquire these assets but there are unique rules and guidelines that need to be adhered to.

Here are the common questions we're often asked about borrowing:

Can I move my existing rental properties into my SMSF?

If these are residential properties then in most cases the answer is no. Your SMSF cannot acquire property from a 'related party' unless the property is used in a business (called business real property). A related party includes you, your relatives, and in some cases your business associates. It can also include entities that are controlled by these people.

Can I own my business premises through my SMSF?

Assuming that the purchase of a commercial property makes sense for the fund, there is nothing to prevent the fund from purchasing a commercial property. The fund could even acquire the existing business real property from a member or related party! Your SMSF could then lease the property back to your business so long as the lease is on commercial terms. This could be a great way to boost your retirement savings as the rental income is taxed at a maximum of 15%.

Can my SMSF borrow money to buy property?

Since September 2007, SMSFs have been able to borrow to acquire assets. It's important to recognise that as there are strict rules surrounding this, you should always seek professional advice.

Your SMSF can only borrow to acquire assets that it would otherwise be allowed to. The SMSF cannot use the borrowings to improve the property (no extensions or renovations), so what you buy is what you're stuck with until your SMSF has paid off the loan.

Can my SMSF own property overseas?

As long as holding or purchasing the property is in line with the fund's investment strategy, there is nothing in the superannuation rules to prevent your SMSF owning property overseas. But again, beware of some of the traps.

DID YOU KNOW?

There were 425,300 Self Managed Superannuation Funds in Australia at 30 June 2010 with 29,405 new funds created in the 2009/2010 financial year. Of those, 25% had a total asset value below $200,000, and 49% had a total asset value between $200,000 and $1m. Just over 30% of all new funds in the same time period were set up by 45 to 54 year olds. As at December 2010, SMSFs owned assets worth a total of $420,612,000,000 – 31% in listed shares.

FBT: THINGS YOU SHOULD KNOW

The FBT year runs from 1 April to 31 March. FBT is one of those areas that many employers struggle with; not because the tax is complex but because of the level of detail required to fulfil your obligations.

A problem area: Reportable superannuation contributions

Reportable superannuation contributions need to be disclosed on employee payment summaries. The need to report reportable superannuation contributions has been in place since 2010 but it is clear that employers are making mistakes.

Broadly, contributions made by an employer will be captured by these disclosure rules if the employee has had the ability to influence the amount of a super contribution or the manner in which it is contributed. The following are examples of situations in which employers would be required to disclose the contributions on payment summaries:

- Contributions made under an effective salary sacrifice arrangement in excess of the 9% super guarantee amount;
- Contributions in excess of the 9% super guarantee amount that are made in accordance with an employment contract or agreement;

Contributions that exceed the 9% super guarantee amount and are made to family members who are employed by a family-owned business.

It is important to note that the $2,000 threshold that normally applies to reporting fringe benefits on payment summaries does not apply to reportable super contributions.

Even though the employee will not be taxed on the amounts reported, they will be taken into account in determining entitlement to certain tax and Centrelink benefits as well as liability for certain tax liabilities such as Medicare levy surcharge.