

Client Information Bulletin



Chartered Accountants and Business Advisers

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Chartered Accountants

Superannuation contributions – Lower limits after 1 July 2009

From 1 July 2009, the maximum deductible superannuation contribution is going to be halved. The deductible contribution caps are:

Superannuation deductible contribution caps		
	Until 30 June 2009	From 1 July 2009
Under 50	\$50,000	\$25,000
Over 50	\$100,000	\$50,000

For businesses, these budget changes will reduce their ability to tax plan in the future and will also negatively impact people in the later years of their working life who are looking at increasing their superannuation balances in a tax effective manner before retirement.

50 per cent investment allowance

The Federal Government has recently passed the 50 per cent investment allowance and it is now law.

The increased investment allowance is now 50 per cent for small businesses and increases the business tax break for **NEW** assets purchased between 13 December 2008 and 31 December 2009.

The increased investment allowance of 50 per cent applies to businesses with a turnover of less than \$2m. For all other

businesses, the previously announced 30 per cent (to 30 June 2009) and 10 per cent (from 1 July 2009) investment allowances continue to apply.

The allowance will be offered on almost all **new** plant and equipment, vehicles and other assets costing over \$1,000. The investment allowance will be confined to **new** assets and **new** expenditure on existing assets, used in Australia. Assets that have previously been used or held for use will be excluded.

Land, trading stock and buildings are excluded from the definition of depreciating assets and will not qualify for the investment allowance.

There is a significant misconception in relation to this new investment allowance, as it is often overstated by sales people. The 50 per cent investment allowance is essentially an additional tax deduction, which is different to a 50 per cent tax refund as it is often promoted.

Here is an example highlighting the tax benefits of buying a new \$44,000 car, when the business is registered for GST with a tax rate of 30 per cent.

		GST/Tax benefits
Purchase price of car	\$44,000	
GST Refund (assuming 100% business use)	\$4,000	\$4,000
Net Cost after GST Refund	\$40,000	
15% Depreciation	\$6,000	
Tax Benefit of Depreciation (@30% tax rate)		\$1,800
50% Investment Allowance	\$20,000	
Tax Benefit of Investment Allowance (@30% tax rate)		\$6,000
Total 1st Year Tax Benefit		\$11,800
Total 1 st Year Tax Benefit as % of cost		26.8%

The allowance will be claimed through the income tax return in which the first depreciation is claimed for the asset. As only new cars are eligible for the new investment allowance, it may now be better to buy new business cars rather than used cars.

Motor vehicle luxury car limit

If you are thinking about purchasing a new car to make use of the new 50 per cent investment allowance, it is advised that the investment allowance is capped by the luxury car limit, which is currently \$57,180. That would mean the maximum investment allowance would be 50 per cent of \$57,180.

2009/10 personal tax rate changes

Individual tax rates are changing from 1 July 2009. 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 2009 are below.

2009/2010 Taxable Income	Tax Rate
\$0 - \$6,000	0 per cent
\$6,001 - \$35,000	15 per cent
\$35,001 - \$80,000	30 per cent
\$80,001 - \$180,000	38 per cent
\$180,001 +	45 per cent

Plus Medicare Levy 1.5 per cent

Family tax benefit – Update on claiming

From 1 July 2009 claims for the Family Tax Benefit Part A and B can no longer be made on the annual income tax return (2009 and previous year claims).

Administration of the system has been reformed. As such your Tax Agent will no longer be able to process the claim as part of your personal annual income tax return lodgement.

Claims can now be made either:

- Directly with the Family Assistance Office online at www.familyassist.gov.au; or
- In paper form available at Centrelink and Medicare offices.

After your Tax Agent has lodged your personal income tax return, end of year top-up adjustments will also be paid directly by the Family Assistance Office. The exception to this will be when the Notice of Assessment results in a final tax debt: top-up payments will be credited up to the amount of the debt.

Spotlight on self-education expense claims

Two recent cases highlight the necessary nexus required to be established between the receipt of income and study costs which may form a work related expenses claim.

In the first case, the Federal Court upheld a student's claim for study costs on the basis that the expenses were incurred in deriving the Youth Allowance benefit.

Even though the course of study would result in the student's initial qualification, it was sufficiently established that the expenses incurred would allow

the student to satisfy the 'activity test' of the Youth Allowance.

In the second case, a Tribunal ruled against a taxpayer seeking to claim the costs of their Masters of Applied Commerce and Graduate Certificate of Wealth Management, undertaken whilst they were employed as an accounts manager and personal assistant.

The Tribunal held the study was not a requirement of employment, nor would it necessarily lead to any increase in income within the existing employment. Rather, the course would lead to new forms of qualification, and a new and different income earning activity.

If you are considering further study or other professional development which you think may be deductible as a work-related study expenses, it may well be worth your while to discuss with your Chartered Accountant the nature of the study and expected costs.

Some common mistakes made on income tax returns

The Australian Taxation Office reports that about 11.8 million individuals lodge tax returns a year; however, some make common errors.

Examples of these are:

- Where a taxpayer uses a car in the course of earning income, they may be entitled to claim deductions for some of the costs. If a logbook is maintained check for the following:
 - A logbook must be kept for a continuous 12-week period and must be retained for five years.
 - Each business journey must be entered to show

the day the journey began and ended. The log book must record the car's odometer readings at the start and end of the journey, how many kilometres the car travelled and why the journey was made.

- Each record must be made at the end of the journey, or as soon as possible afterwards.
- Common mistakes made with car claims include:
 - A lack of evidence to support the claims,
 - Errors in calculating the business percentage
 - Deductions being incorrectly claimed for the costs of travel between home and work.
- Expenditure on clothing and its maintenance is generally considered a private expenditure and therefore not deductible under the Tax Act.

In some cases, expenditure on certain types of clothing may be deductible and can apply to the cost of buying or replacing clothing, uniforms and footwear.

A deduction may be available if:

- It is protective clothing, or
 - It is a uniform and it is compulsory for work, or
 - It is a non-compulsory uniform that has been entered on the Register of Approved Occupational Clothing.
- Tax deductions for the costs of washing, drying or ironing clothes are only available for clothing that falls into one or more of the above categories.

Common mistakes include:

- A lack of clear documentation to

support the claim, particularly dry cleaning,

- Making claims for clothing expenses that do not meet any of the criteria to qualify for a deduction
 - Lack of demonstration of how the clothing relates to earning income.
- Tax deductions are available for the costs of self-education. Common mistakes in this area have already been outlined in the article 'Spotlight on self-education expense claims'.

There are complexities involved in completing an Australian income tax return, so it is recommended that taxpayers engage the services of a Chartered Accountant.

'Lifestyle assets' owned by companies

Recent Government announcements bring under the spotlight the issue of private companies which own so-called 'life-style' assets, for example cars, boats and real estate.

The Government is proposing tightening up the 'deemed dividend' rules, particularly in circumstances where there is usage of company property for free or at less than arm's length value.

The proposed changes highlight the need to carefully consider what assets are held by companies, the terms of use by the company's shareholders, and whether any 'deemed dividend' issues may arise.

Frequently any adverse taxation consequences could be avoided by having in place appropriately documented terms of use for any relevant assets. In certain circumstances it might also be necessary to revisit and

restructure how particular assets are held.

If you believe your private company may be affected by these measures, we suggest you bring this up with your Chartered Accountant.

End of year tax planning

Some common year end tax planning strategies include:

- Prepaying expenses if you are in, or are considering using, the Simplified Tax System (STS)
 - Paying outstanding accounts by 30 June 2009 if you are in, or are considering using, the STS system
 - Deferring the receipt of income until after 30 June 2009 where appropriate
 - Consider paying a superannuation contribution of \$3,000 to a low income spouse to gain a rebate of \$540
 - Negative gearing (although this needs to be started earlier rather than later in the financial year)
 - Crystallising capital losses if you have derived any capital gains this year. Be very careful however, of the ATO's new negative stance on 'wash sales'.
- A wash sale is the sale of a share to create a capital loss and then buying back the same share. If you are considering using this option, please make an appointment to discuss implementing this strategy
- Consider paying additional superannuation contributions within the maximum superannuation limits
 - Purchase plant and equipment costing less than

\$1,000 to claim a deduction this year if you are in the STS System

- Purchase new depreciable plant and equipment to make use the new 50 per cent investment allowance.

Contact your Chartered Accountant to discuss the benefits of preparing Cashflow Projections.

Keep your receipts

In two separate media releases the Government and the Tax Office reminded parents to keep receipts relating to expenses incurred on their children's education if they wish to claim the education tax refund.

Since 1 July 2008, eligible families have been able to receive a maximum refund of \$375 for each child undertaking primary studies and \$750 for each child undertaking secondary studies.

The Tax Office state that only expenses which are paid for by the parents will qualify for the refund. It also states that if an item is used for different purposes, only the amount that relates to a child's education is eligible for the refund.

Retaining customers

Today businesses are recognising the importance of satisfying and retaining current customers. Here are some interesting facts on customer retention:

- Acquiring new customers can cost five times more than the costs involved in satisfying and retaining current customers
- The average business loses 10 per cent of its customers each year
- A five per cent reduction in the customer defection rate can significantly increase net profits
- The customer profit rate tends to increase over the life of the retained customer.

Cashflow – The focus in 2009

Cashflow in a business must be seen by small businesses as the most important issue when managing finance this year.

A business needs to regularly prepare Cashflow Projections. The projections will provide evidence of whether the business can meet its debts in the following 12 months.

Strategies including cost cutting, ensuring customers pay quicker, and maintaining minimal inventory levels. All these efforts will provide opportunities to improve a business's cash position.

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