

## June 2012 Update

It has now been three years since the Global Financial Crisis (GFC) hit and, for many of you in business, it feels like it has come back yet again or, in some cases, may feel like it was never over.

In times like these it is very important that you have a good understanding of where your business is at from a financial perspective. This is why it is important to keep your financial records accurate and up to date and to review them regularly to ensure you know how your business is going at any given time. Failure to do this may well result in the failure of your business.

Aside from the financial aspect, how many of you can identify what the key elements to success in your business are? While there is no definitive list some possible reasons could include:

- Range of products/services offered
- Price
- Quality of your work
- Location

Often, the reason businesses fail is that they forget what made them a success in the first place. Financial issues come and go on a regular basis but can normally be overcome by identifying the reasons for our past successes.

If your business is finding times are tough at the moment, think back to better times and make a list why things were going so well then. Based on this list you should then make a plan on how to improve each of these areas in your business today and start to make change.

Just remember, if you fail to plan, you plan to fail.

Michael Van Dyk and Jarrad Newbold

### Facebook

Please like our Facebook page so that we can keep you up to date with all things tax in a timely manner. A link to this page can be found on our web page or at the bottom of any emails we send.

### Staff News

Congratulations to Jarrad and Nicole on the recent arrival of Flynn Edward Newbold. With three boys, it is bound to be one busy household!!

## Private Health Insurance and Medicare Levy Surcharge Changes

From 1 July 2012, the private health insurance rebate and Medicare levy surcharge will be income tested against three new income tier thresholds.

Higher income earners will receive less private health insurance rebate or, if they do not have the appropriate level of private patient hospital cover, the Medicare levy surcharge may increase.

The ATO will determine the amount of a taxpayer's private health insurance rebate entitlement when they lodge their income tax return.

The private health insurance rebate and Medicare levy surcharge will be income tested against the income thresholds in the table below.

	Unchanged	Tier 1	Tier 2	Tier 3
Singles	\$84,000 or less	\$84,001-97,000	\$97,001-130,000	\$130,001 or more
Families*	\$168,000 or less	\$168,001-194,000	\$194,001-260,000	\$260,001 or more

Age	Rebate			
under 65	30%	20%	10%	0%
65-69	35%	25%	15%	0%
70 +	40%	30%	20%	0%

Medicare levy surcharge				
Rate	0.0%	1.0%	1.25%	1.5%

\* The family income threshold is increased by \$1,500 for every child after the first child.

As the new rebate only applies to premiums paid after 1 July 2012, it is possible to avoid this change in the 2012/13 year if you pre-pay your health insurance before 30 June 2012. If you think this change will impact you and wish to prepay your health insurance, speak to your health insurer.

## Budget 2012

Following are the main tax measures announced in last month's Federal Budget.

### Measures not going ahead or being deferred

Some of the biggest tax news from the latest Budget involved the Government deciding not to proceed with (or deferring) previously announced initiatives, including the following:

- Not lowering the company tax rate from the 2013/14 year, nor implementing an early start to the company tax rate cut for small businesses from the 2012/13 year;
- Not proceeding with the measure to introduce a 50% discount for interest income, which was due to commence on 1 July 2013;
- Not proceeding with the measure to introduce a standard deduction for work related expenses and the cost of managing tax affairs, which was due to start on 1 July 2013; and
- Deferring the start date of the measure to increase, by \$25,000, the concessional contributions cap for individuals over age 50 with superannuation balances below \$500,000 from 1 July 2012 to 1 July 2014. This two-year deferral means that, for 2012/13 and 2013/14, the concessional contributions cap will be \$25,000 per year for all individuals, regardless of their age.

### Phasing out the Mature Age Worker tax offset

From 1 July 2012, the Government will phase out the mature age worker tax offset ('MAWTO') for taxpayers born on or after 1 July 1957. Access to the MAWTO will be maintained for taxpayers who are aged 55 years or older in the 2011/12 year.

### Education Tax Refund now a 'Schoolkids Bonus'

From the 2012/13 year, the Government will transform the Education Tax Refund into a 'Schoolkids Bonus' that will automatically be paid to eligible families through the family payments system. Eligible families will receive the new Schoolkids Bonus of \$410 for each child in primary school and \$820 for each child in high school.

The bonus will be paid in two equal instalments in January and July each year, starting from January 2013 and, as a transitional measure, the full Education Tax Refund for the 2011/12 year will generally be paid to eligible taxpayers in June 2012. This also means the Education tax Refund will no longer be part of the 2011/12 tax return.

### Changes to the Net Medical Expenses tax offset

A means test will be introduced for the net medical expenses tax offset ('NMETO') from 1 July 2012. For taxpayers with adjusted taxable income above the Medicare levy surcharge thresholds (i.e., \$84,000 for singles and \$168,000 for couples or families in 2012/13):

- The threshold above which a taxpayer may claim the NMETO will be increased to \$5,000 (currently \$2,000); and
- The rate of the tax offset will be reduced to 10% (currently 20%) for eligible out of pocket expenses incurred.

### Company loss 'carry-back' tax relief

The Government will provide tax relief for companies (and entities taxed like companies) by allowing them to 'carry-back' revenue tax losses so they receive a refund against tax previously paid, with 2012/13 being the first year that companies will be able to carry-back up to \$1 million of revenue tax losses.

The measure will be subject to integrity rules, and limited to a company's franking account balance.

### New personal tax rates 2012/13

From 1 July 2012, personal tax rates are to be adjusted by:

- raising the tax-free threshold from \$6,000 to \$18,200;
- lifting the first two marginal tax rates from 15% to 19% and from 30% to 32.5%; and
- reducing the low-income tax offset from \$1,500 to \$445.

Tax Rate %	2012/13 Thresholds \$
0	0 – 18,200
19	18,201 – 37,000
32.5	37,001 – 80,000
37	80,001 – 180,000
45	> 180,001

Due to this change, up to one million people will no longer need to lodge a tax return because their income will be under the tax free threshold.

As a result of the increase in the tax free threshold, this means that individuals can earn up to \$20,542 without paying any tax.

## Important Superannuation Changes

### Low income superannuation contribution

Individuals earning up to \$37,000 will effectively pay no tax on their superannuation guarantee (SG) contributions from 1 July 2012. Under the LISC, the 15% contributions tax will effectively be refunded into their superannuation accounts.

### Superannuation co-contribution

The Government will reduce the matching rate and maximum payment of the voluntary superannuation co-contribution from 1 July 2012, when the new LISC commences.

From 1 July 2012, the Government will reduce the super co-contribution by 50% to 50c per \$1 contribution, reducing the maximum benefit from \$1,000 to \$500. The measure also means those earning more than \$46,920 will no longer get a partial benefit compared with the current upper income threshold of \$61,920.

### Concessional contribution caps

The Government will pause the indexation of the superannuation concessional contributions cap for one year in 2013-14, so it remains at \$25,000. Indexation of the cap will be deferred until 2014-15, when the cap is expected to rise to \$30,000.

### Extension of Pension Drawdown Relief

The Government has announced an extension of drawdown relief for account-based pensions for the 2012-13 year, with a 25% reduction in the minimum payment amounts.

### Cents per Kilometre Rate for 2011/12

The Tax Office has announced that the cents per km rates for claiming business kilometres for 2010/11, based on engine size, are as follows:

Non-Rotary Engine	Rotary Engine	Rate per Km
Up to 1,600cc	Up to 800cc	63 cents
1,601 to 2,600cc	801 to 1,300cc	74 cents
Over 2,600cc	Over 1,300cc	75 cents

Please note that these rates have remained unchanged from the 2010/11 year.

### End of Year Tax Planning Opportunities

At this time of year, it is a good time to consider methods to reduce profit and the amount of tax to be paid. Following are some suggestions on how to reduce your income and tax payable before the end of the year.

### Defer Income and Prepay Expenses

To reduce profit for the year, before year end you should consider:

- Paying creditors before 30 June 2012;
- Delaying the banking and billing of income until after 1 July 2012;
- Purchase new tools, undertake repairs and maintenance etc. before June 30; or
- Pay superannuation liabilities for employees before 30 June.

In addition to this, the purchase of a major asset before 30 June would be beneficial as you receive depreciation on it for the full 12 month period, not just the few days it was owned during the year.

### Salary Sacrificing

It can be beneficial to sacrifice your salary for part of June directly to superannuation (assuming your employer allows this). This has the effect of reducing your taxable income in this year while boosting your retirement savings for the future. However, it is important that you review your superannuation contribution limits to ensure they are not exceeded for the financial year.

### Offset of Capital Gains Tax Liability

It may be a good time to review investment portfolios and consider realising a capital loss on non-performing assets in order to offset realised capital gains. Capital losses carried forward from previous years can also be utilised.

Self employed persons can reduce their tax liability on any capital gains made during the year by making a personal superannuation contribution and claiming a tax deduction for that contribution.

### Superannuation Contributions

Another method of reducing your taxable income for self-employed people is to contribute money to superannuation. If you are drawing a wage from your business, we suggest you contact us first to ensure any contributions are recorded correctly to ensure their deductibility. The maximum deductible contribution that can be made to superannuation is as follows:

Age in Years	Deduction Limit
Under 50	\$25,000
50 and Over	\$50,000

## Building Industry Reporting of Payments

From 1 July 2012, businesses in the building and construction industry need to report the total payments they make to each contractor for building and construction services each year. You need to report these payments to the ATO on the Taxable payments annual report.

### Details you need to report

For each contractor, you need to report the following details each financial year:

- Australian business number (ABN), if known
- name
- address
- gross amount you paid for the financial year (this is the total paid including GST)
- total GST included in the gross amount paid.

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

### Payments you do not report

Do not report:

- payments for materials only
- any unpaid invoices as at 30 June each year – e.g. if you receive an invoice in June 2012, but you do not pay that invoice until some time in July 2012, you report that payment in 2012-13 Taxable payments annual report
- payments which are required to be reported in a PAYG withholding payment summary annual report, such as payments to employees
- payments made by home owners for private and domestic projects – e.g. payments made for building or renovating your own home.

### When to report

The first Taxable payments annual report is due 21 July 2013 for payments made in the 2012-13 financial year. In this first year if you lodge your business activity statement quarterly, you may lodge by 28 July 2013.

This new reporting system begs the question, "What will the ATO do with this information?" Some obvious answers are:

- The matching of income in returns
- To ensure superannuation obligations are being met where necessary
- The review of "personal services income". This refers to income that is being split with other family members through trusts/partnerships
- To identify arrangements that are, more realistically, employees than contractors.

Those clients who are in the building and construction industry should review their systems and ensure the appropriate records are kept as of 1 July 2012.

## Small Business Instant Asset Write Off

As part of the Carbon Tax Measures the small business instant asset write-off threshold has been increased from \$1,000 to \$6,500 for the 2012-13 year. In addition to this, the long-life small business pool and the general small business pool have been consolidated into a single pool to be written off at a 30% rate.

When buying a motor vehicle, small businesses can claim an accelerated initial deduction of \$5,000 of the initial cost with the remaining amount being depreciated at 30%

## New ABN and business names registration

The Australian Securities and Investments Commission's (ASIC) new national business name registration service replaces state and territory systems. You no longer need to register your business name in every state and territory they want to trade in and only need to register your name nationally once with ASIC.

To apply for a business name you will need to have (or be in the process of applying for) an Australian business number (ABN). You do not need to advise the Australian Business Register (ABR) when your business name is registered - ASIC will automatically update the ABR with this information.

If you registered a business name before 28 May 2012, it will only be passed onto the ABR and appear in ABN Lookup if you provide your ABN to ASIC. If you want to change, add or remove your business name, you will need to contact ASIC.

In late 2012, the ABR will provide a combined online application for an ABN and business name registration. Your details will be pre-filled from one registration to the next. It will mean less paperwork as you will only have to complete your details online once.

As a result of these changes, you are currently unable to register for GST or PAYG Withholding at the time of applying for an ABN. However, these registrations can be added via the business or tax agent portal once the ABN is issued.

### Disclaimer

We suggest that you do not act on the basis of the information in this report as they are general comments only and may be subject to misinterpretation.

Also, changes in legislation occur quickly and we recommend you seek our advice before acting in any of these areas