

THE BOTTOM LINE

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(1) FEDERAL BUDGET 2008-09

More Personal Tax Cuts

The Government has confirmed it will deliver in full the tax cuts it announced during the 2007 election campaign. We are expecting the following changes to individual tax rates:

From 1 July 2008:

Taxable income (\$)	Rate (%)
0 – 6,000	0
6,001 – 34,000	15
34,001 – 80,000	30
80,001 – 180,000	40
180,000 +	45

From 1 July 2009:

Taxable income (\$)	Rate (%)
0 – 6,000	0
6,001 – 35,000	15
35,001 – 80,000	30
80,001 – 180,000	38
180,000 +	45

From 1 July 2010:

Taxable income (\$)	Rate (%)
0 – 6,000	0
6,001 – 37,000	15
37,001 – 80,000	30
80,001 – 180,000	37
180,000 +	45

The Government also set an aspirational tax goal over six years for a personal income tax system which reduces the number of rates from four to three with a personal income tax scale of 15%, 30% and 40%.

In addition, the Government has announced increases in the low income tax offset (LITO) that will effectively mean that from 1 July 2008, if you are eligible for the full LITO, you will not pay tax until your income exceeds \$14,000.

This will also rise in 2009 and 2010.

Small Business Tax Concessions

You may already be aware that access to small business tax concessions was simplified from 1 July 2007.

You can now pick and choose what type of concession suits your business:

- most small businesses with an aggregated annual turnover of less than \$2 million are able to access a range of small business tax concessions, ranging across income tax, capital gains, GST and PAYG; or
- if your business does not satisfy this \$2 million threshold test, but the net value of its CGT assets does not exceed \$6 million, it may still be able to access the CGT small business concessions, subject to satisfying any other eligibility tests.

With effect **from the 2007-08 year**, access to the small business CGT concessions will now be extended to:

- taxpayers owning a CGT asset used in a business by a related entity; and
- partners owning a CGT asset used in a partnership business.

Luxury Cars

If you're going shopping for new cars in the new financial year, you may find them more expensive.

From **1 July 2008** the luxury car tax rate is expected to increase from 25% to 33%, bearing in mind that the luxury car tax currently cuts in at \$57,123.

Disclaimer

We believe the advice and information contained in this newsletter to be accurate and reliable but no warranty of accuracy or reliability arising in any other way for errors or omissions (including responsibility to any person by reason of negligence) is accepted by the company or its officers.

Before you rush out and go car shopping before 1 July 2008, it's still not clear in what circumstances the 25% rate will continue to apply before 1 July (e.g., whether you simply need to order before 1 July or whether you will also have to take delivery of the vehicle on or before 30 June 2008)

Crack down on Fringe Benefits

In previous newsletters, we have given you some tips about how to position yourself cost effectively as an "employer of choice" by providing employees with work-related items free from fringe benefits tax (FBT) as part of their salary packaging arrangements.

Unfortunately, effective immediately, it will now be harder for you to provide these types of benefits FBT free.

From 7.30 pm (AEST) on 13 May 2008, the FBT exemption for purchases of certain work-related items (including laptop computers, personal digital assistants and tools of trade) only applies where your employees use these items primarily for work purposes.

The FBT exemption will generally be limited to one item of each type per employee per year.

Superannuation Clearing House

The Government plans to introduce an optional superannuation clearing house to help you manage your employer obligations under Super Choice.

Under Super Choice some employers have to pay superannuation into a large number of different funds for their employees. This can be a costly administrative exercise.

Under the new proposal:

- you will be able to pay your employee contributions into a single location – the superannuation clearing house; and
- the superannuation clearing house distributes the contributions to the various super funds by your employees.

It's early days for this proposal because the Government still has to consult with industry on this measure before it goes any further.

(2) EMPLOYERS AND TAX FILE NUMBERS

When your employee completes a Tax file number declaration, you must pass their tax file number (TFN) onto their super fund or retirement savings account (RSA) if you make contributions for them.

If you don't pass on your employee's TFN:

- you will be guilty of an offence and liable to pay a penalty;
- the super fund or RSA may have to pay extra tax on the contributions; and
- your employee may miss out on super co-contribution payments.

If you make employer contributions for an employee, you need to give their fund or RSA their TFN within 14 days of receiving your employee's Tax file number declaration form.

If you are not required to make contributions for an employee, you only need to pass their TFN on to their super fund or RSA when you start making contributions.

(3) SUPER GUARANTEE

From 1 July 2008 super guarantee contributions are to be standardised and calculated at 9% of ordinary time earnings (OTE). Currently, most employers use this method but older arrangements have earnings bases which may be contained in an Industrial Award, agreement, or a Commonwealth, State or Territory law. From 1 July 2008 all employers must contribute at least the amount calculated on OTE.

The Tax Office suggests using the following checklists to assist in making preparation for the changes which are effective from 1 July 2008.

- Review earnings base for all staff to be sure that OTE is used.
- Review the check list on the Tax Office website to identify what is included in OTE.
Visit www.ato.gov.au and type Ordinary Time Earnings in the search box.
- Ensure bonuses (except Christmas bonuses) are included in OTE.
- Ensure allowances (except reimbursements or fully expended allowances) are included in OTE.
- Ensure all commissions are included in OTE.
- Budget for any additional costs if you are required to increase super guarantee contributions.
- Ensure systems are in place to handle the changes by 1 July 2008.
- Ensure systems are in place to advise employees of any changes.

Employers must also ensure that from 1 July 2008, that their default super fund offers minimum levels of life insurance death cover to members.

(4) SPOTLIGHT – SHAREHOLDER LOANS

A few years ago you borrowed some money from the family company. The following year, you also paid some personal expenses through the company. You were not unduly concerned at the time when all this showed up on the company's balance sheet as a loan to you as a shareholder. Sound familiar?

There is a nasty sting in the tail here. You may find yourself in receipt of a deemed dividend (unfranked and fully taxable) unless you:

(5) PLANNING FOR YOUR TAX RETURN

- fully repaid the loan by the lodgement day of your company's tax return for the year which the loan arises; or
- repay the loan on commercial terms where the loan is for more than a tax year.

The above example is one of the situations where a deemed dividend may crop up under what are known as the Division 7A rules. These rules try to prevent private companies from making tax-free distributions disguised as loans, expense payments or forgiven debt.

One of the biggest problems with these rules is that many taxpayers are unaware they have fallen foul of them. However, there is potential relief at hand.

The Commissioner of Taxation now has a new discretion to provide relief if you are in receipt of a Division 7A deemed dividend as a result of an honest mistake or an inadvertent omission. He can exercise this discretion going back to (and including) the 2001-02 income year.

Commissioner exercises his discretion

The good news is the Commissioner has decided to exercise his new discretion. The ATO announced recently that it will disregard a deemed dividend under the Division 7A rules where:

- you take "corrective action" in cases of honest mistakes or inadvertent omissions by 30 June 2008;
- the relevant transaction or event that caused the Division 7A dividend to arise occurred from (and including) the 2001-02 income year, up to (and including) the 2006-07; and
- all the required income tax returns for the periods concerned have been lodged if necessary.

A NOTE OF CAUTION

The ATO may not share your view about what constitutes an "honest mistake or inadvertent omission". Exercise care in assessing whether you may be able to rely on this concession!

At the risk of oversimplifying the corrective action you may need to take, according to the ATO this will typically involve:

- you entering into a loan agreement with the company;
- you paying any principal and interest that may have accrued so far over the term of loan; and
- the company including these payments in its 2007 company return.

TIP

As there are a number of potential Division 7A problem situations that may come within this discretion, it's best to get advice now about whether you may have a problem in the first place and whether you may be entitled to take advantage of the ATO's offer.

It's also worth noting that a number of other welcome changes have been made to the Division 7A rules (e.g., your company's franking account will no longer be debited when a deemed dividend arises under Division 7A – this results in an overall reduction of potential penalties).

Tax Planning Basics

Ideally, tax planning is something you should be looking at regularly throughout the year. The reality, however, is that most of us tend only to look at it about now. Whilst there is no magic formula for the 'best' tax planning strategies, good planning practice aims to:

- **cover the basics** – such as including all your assessable income and maximising all the tax deductions to which you are entitled; and
- **look at opportunities to improve your tax situation** – this depends on your particular circumstances but may include things like ensuring any capital gains are offset with any available capital losses or maximising your superannuation contributions for the year.

Here are some key tax-time issues for you to consider when preparing your 2007-08 return.

Maximise your deductions now

One of the more popular strategies to legitimately maximise your deductions is by prepaying some items of your business expenditure before 30 June.

COMMON PREPAYMENTS

Commonly prepaid business items include rent, lease payments, interest, audit and accounting fees, repairs and maintenance, and business related subscriptions.

Before you prepay any business expenses, you should be aware that there are some rules that may affect your entitlement to claim a deduction for prepaid business expenses (e.g., you may have to apportion your deduction over more than one tax year).

Watch out for GST traps

It's not hard to make a mistake keeping track of and working out your businesses GST reporting obligations, payments and refunds.

Here are some common traps to avoid.

- Be careful not to understate the total value of goods and services supplied.
- Make sure you are not overstating your entitlement to input tax credits.
- Make sure you report supplies and purchases in the correct period.
- Classify your supplies correctly – be particularly careful if you think a supply is GST free.

Keep an eye on your business losses

Has your business received income from more than one activity during the year and one (or more) of these activities made a loss?

You may be able to reduce your overall taxable income by offsetting this loss (or losses) against profits from your other business activities during this year.

You should be aware that if you carry on business alone or in partnership, there are some special 'commerciality tests' that your business will need to satisfy so you can do this.

NEW BUSINESS ACTIVITIES

If you have started-up a new business venture during the year which has made a loss, not uncommon in the early stages of a new venture, you'll need to check whether you can claim this loss against your other income.

Check your bad debts now

If your business has a debt that has already been brought to account as assessable income and you can't collect that debt, you want to make sure you don't end up paying tax on income you can't collect.

The way you do this is to claim a deduction for this debt, where such a debt is 'bad' and is written off in your accounts before 30 June.

WHEN IS A DEBT BAD?

When you have made an effort to collect it, there is little likelihood that you will ever be successful in collecting it and you have abandoned any debt recovery action.

Value your trading stock at 30 June

You'll need to value your closing stock on hand and work-in-progress at 30 June. Resist the temptation to guess – this is a common mistake that businesses make!

When you value your trading stock, clearly identify which valuation method you use – cost, replacement, market value (or less if the stock is obsolete).

For more information regarding these matters, or if you require our assistance, please contact our office.

FUTURE ISSUES OF BOTTOM LINE

In future, we would like to issue our newsletter by way of email to as many clients as possible. Where this is not possible, we will continue to post our newsletter to you.

If you would prefer to receive our newsletter via email, would you please forward an email to our office manager, Wendy Phelps at wphelps@tregloans.com.au, using the word "Newsletter" as your subject heading.



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