



## **Our Website is now ACTIVE!**

Kallinicos & Associates is proud to advise that our website is now on line at:

[www.kallinicos.com.au](http://www.kallinicos.com.au)

Our website provides information about ourselves, our services and the latest news regarding taxation and business measures. So now you can be kept constantly up to date.

More importantly, our website also includes an "on line" quote form for anyone who hasn't used our services yet. Please mention this to any associates that you think may be interested and we will be happy to assist.

## **Cash economy benchmarks**

The ATO has developed new cash economy benchmarks for the building industry. It consulted widely with the building industry and, depending on the size of the business, has developed expected levels of income, expenditure and profits.

These benchmarks help them try and establish how much income a business has generated by looking to the amount spent on purchases of stock, and other materials used in the business. The new industries which benchmarks have *initially* been developed are:

- u Bricklaying
- u Concreting
- u Fencing
- u Roofing
- u Floor sanding
- u Painting

The Tax Office is adamant that the benchmarks will not be used by tax auditors, but will be available to encourage taxpayers to comply with the law once they are aware of their existence.

## **Health insurance policy holders to get CGT relief**

The Government intends to change the law, from 1 July 2007, to provide CGT relief for policy holders of

health insurers who receive shares when their health insurer demutualises (say for example – MBF).

In addition, shares for 'lost policy holders', who, for example, are unable to receive shares because they reside overseas or have not agreed to receive their shares, will be held on trust for them. The cost base for policy holders will be either:

- n based on their share of their health insurer's net tangible assets; or
- n market value cost base where they are pre-CGT policy holders.

A similar cost base will also be provided for any rights that post-CGT policy holders surrender for a cash payment as part of their health insurer's demutualisation.

## **Change to calculation of super guarantee from 1 July**

The Tax Office is reminding employers that from 1 July 2008 ordinary time earnings (OTE), as defined in the super guarantee law, must be used to calculate super contributions for their employees.

### **What is OTE?**

OTE is generally what an employee earns for ordinary hours of work including over-award payments, shift loading or commissions. It excludes such things as overtime (and there are some other exceptions). Most employees have OTE as their earnings base, however some have other earnings bases that may be contained in:

- u an industrial award;
- u an existing employment agreement;
- u a fund's trust deed; or
- u a Commonwealth, State or Territory law.

If an employer is currently paying super on a different earnings base, and this results in an amount being paid which is less than the minimum 9% of OTE from 1 July 2008, they may need to increase the super support to meet the minimum and avoid the superannuation guarantee charge (SGC).

### Example

Motor vehicle company XYZ has been paying super contributions under an award for its employees which states that commission for salespersons is excluded from ordinary time earnings as defined in the relevant award.

However, from 1 July 2008, Motor vehicle company XYZ must include commission for its salespersons when calculating super guarantee contributions.

### Income tax: 2007/08 cents/km rates

The 2007/08 cents per kilometre rates for claiming deductions for car expenses have been released. **Unfortunately, they have not changed, even though the cost of fuel has skyrocketed!**

Engine capacity (non-rotary)	Engine capacity (rotary engine)	Rate (cents)
0 – 1,600cc	0 – 800cc	58
1,601 – 2,600cc	801 – 1,300cc	69
2,601cc+	1,301cc	70

### Budget 2008

The biggest news from the past month was Labor's first Budget in 13 years.

The main stand-outs in the Budget appear to be the restriction of various benefits payable to high income earners (and expanding the application of means testing), and the fact that the Government stuck to its election promises and delivered on the tax cuts (as well as increasing various rebates and introducing new ones).

Also, with the Government's commitment to 'root and branch' tax reform, we may see more significant tax reform in future Budgets. We have summarised some of the other important initiatives in this Update, but if you would like to discuss how the Budget directly affects you, please contact our office.

### Fringe benefits tax (FBT) Changes

The Budget contained a number of measures to close perceived loopholes in the law, which are summarised below.

**Please Note:** Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

### Eligible work-related items

The provision of some work-related items (e.g., laptop computers, personal digital assistants and tools of trade) to employees can be exempt from FBT. However, this exemption will now only apply where the item is used ***primarily for work purposes*** (if purchased after 13 May 2008).

This will be extended to all work-related portable electronic devices acquired after this date.

However, employees will no longer be able to depreciate laptops or other FBT exempt work related items where they have been reimbursed by the employer (i.e., where the item was acquired through salary sacrifice).

### Medicare levy surcharge changes

From 1 July 2008, the Medicare levy surcharge thresholds will be increased for singles (from \$50,000 to \$100,000) and for those who are members of a family (from \$100,000 to \$150,000).

However, in making decisions about whether to retain private health insurance, taxpayers should remember that:

- ❑ the Government's 30% private health insurance rebate (up to 40% for older individuals) will remain; and
- ❑ the Government's Lifetime Health Cover initiative, which encourages individuals to take out and keep private health insurance while they are young, remains unchanged. To avoid paying extra, individuals need to take out Hospital cover by the 1st of July following their 31st birthday. For each year they delay, they will pay 2% more for their premium, up to a maximum of 70%.

### June BAS due 28 July 2008

For those clients whom we prepare their Activity Statements, **please make sure that your information is sent to our office no later than 15<sup>th</sup> July 2008. Penalties and interest will apply if they are not lodged by the due date.**

**2007/2008 YEAR-END CHECKLIST FOR BUSINESS – READ THIS BEFORE YOU  
SEND ALL YOUR WORK IN. IT WILL SAVE YOU AND US A LOT OF TIME!**

Please note the items below are **essential** and must be prepared as at 30 June 2008.

- q If you have computerised records, ensure:
  - All bank accounts are included in your data and that all bank account balances in your data reconcile with your bank statement balance.
  - If you have a debtors and creditors system, make sure that the listing of debtors and creditors equals the amounts shown in the balance sheet produced by your data.
  - If you are using an inventory system, ensure that your inventory list verifies with the balance sheet.
  - Make sure that your GST system in your computerised accounts has been operating correctly to ensure that your GST in your computerised accounts equals that GST shown in your Business Activity Statements
- q If you have a manual cashbook, ensure:
  - All cashbooks are up to date and include all details for deposits and payments
  - Cashbook details also include all GST breakdowns for the full year
- ✓ All cheque butts and deposit books have details, **INCLUDING** the amount of GST for each transaction.
- q All cheque butts, deposit books and bank statements have been sent to our office for the full financial year.
- ✓ Additional bank statements for loan accounts have been sent for the full financial year. If you realise that you do not have statements from 1 July 2007 to 30 June 2008, please contact your bank immediately for details.
- ✓ All wages reconcile with your Pay as You Go group records – that is, your gross wages and the taxes deducted equal the net wages paid to your employees. If you prepare your own PAYG Payment Summaries, please send us copies of:
  - PAYG Employers reconciliation
  - PAYG Payment Summaries
- q If you had contractor payments, of which Pay As You Go tax was withheld, please send the same information as the wages.
- q If our office prepares your group certificates, please send:
  - Wages/Contractors books for the year
  - Copies of your Business Activity Statements which show the gross wages and Pay As You Go Tax withheld from wages/contractors
- ✓ Listing of Debtors (ie customers that owe you money) as at 30 June 2008
- ✓ Listing of Creditors (ie money that you owe suppliers accounts) as at 30 June 2008
- ✓ **Perform a stocktake on 30 June 2008 (amount should exclude GST). Please ensure that this is performed!**
- q Any new finance arrangements of plant, fitting, vehicles etc are forwarded to us, including:
  - Loan
  - Lease
  - Hire Purchase/Chattel Mortgage
- q Sale/Trade in documents of old assets
- ✓ If you are claiming a business use percentage of your motor vehicle, ensure that you have a valid log book (ie it is not older than 5 years)
- q If you have an investment property, provide the following details:
  - If the property was purchased or sold during the year, provide purchase/sale documentation
  - Details of all income and expenditure for the year ended 30 June 2008
  - If you had a property agent, provide a copy of the periodic and yearly summary of the Property Management Statement
  - Listing of all expenses paid in addition to those shown on the Property Management Statement
- ✓ Details of sale of any property, shares or other investments for the year

**Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.**

# 2007/2008 Individual Tax Return Checklist

## Your Checklist

- | Claims for deductions ü
- | Receipts for deductions ü
- | Car claims and log books ü
- | Car record keeping ü

*Please review the information below and contact our office if you need assistance.*

## Tax saving strategies prior to 1 July 2008

### Accelerating tax claims

*As personal income tax thresholds are set to be increased from 1 July 2008, there may be an additional advantage to be had by accelerating any income tax deductions into the current income year.*

The tax rates for resident individual taxpayers for the **2007/2008** income year are as follows:

Income threshold	Tax payable
0 – \$6,000	Nil
\$6,001 – \$30,000	Nil + 15% on excess over \$6,000
\$30,001 – \$75,000	\$3,600 + 30% on excess over \$30,000
\$75,001 – \$150,000	\$17,100 + 40% on excess over \$75,000
\$150,001 and over	\$47,100 + 45% on excess over \$150,000

*Note: The Medicare levy is in addition to these rates.*

### Common work-related claims made by individuals

The following outlines common types of deductible expenses claimed by individual taxpayers, such as employees and rental property owners, plus some strategies that can be adopted to increase deductions for the 2007/2008 income year.

#### 1. Depreciable plant, etc, costing \$300 or less

Salary and wage earners and rental property owners will be entitled to an immediate deduction if plant costing \$300 or less is purchased before 1 July 2008.

Some purchases you may consider include:

- n fax machines;
- n beepers and pagers;
- n books and trade journals;
- n briefcases/luggage or suitcases;
- n calculators, electronic organisers;
- n software;
- n stationery;
- n tools of trade.

#### 2. Clothing expenses

Purchase or pay for work-related clothing expenses prior to the end of the income year, such as:

- q compulsory, non-compulsory (and registered), occupation specific and protective clothing;
- q other expenses associated with such work-related clothing such as dry cleaning, laundry and repair expenses.

#### 3. Self education expenses

Consider pre-paying the following self education items before the end of the income year:

- u course fees (but not HECS-HELP fees), student union fees, and tutorial fees;
- u interest on borrowings used to pay for any deductible self education expenses.

Also bring forward purchases of stationery and text books (i.e., those which are not required to be depreciated).

#### 4. Other work-related expenses

Employees can prepay any of the following expenses prior to 1 July 2008:

- n union fees;
- n subscriptions to trade, professional or business associations;
- n magazine and newspaper subscriptions;
- n seminars and conferences;
- n income protection insurance (excluding death and total/permanent disability).

*Note: When prepaying any of the expenses above before 1 July 2008, ensure that any services are provided within 12 months of the payment and before 1 July 2009. Otherwise, the deductions must be claimed over the period of the prepayment.*

#### Information Required

We will need you to bring information to assist us in preparing your income tax return.

Please check the following and bring along payment summaries, statements, accounts, receipts, etc., to help us prepare the return:

#### Income/Receipts

- q payment summaries for salary and wages;
- q lump sum and termination payments;
- q government pensions and allowances;
- q other pensions and/or annuities;
- q allowances (e.g., entertainment, car, tools);
- q interest, rent and dividends;
- q distributions from partnerships or trusts;
- q details of any assets sold that were either used for income earning purposes or which may be caught by capital gains tax.

#### Deductions (in addition to those mentioned above):

- u award transport allowance claims;
- u bank and government charges on deposits of income, and deductible expenditure;

- u bridge/road tolls (travelling on business);
- u car parking (when travelling on business);
- u conventions, conferences and seminars;
- u depreciation of library, tools, business equipment, incl. portion of home computer;
- u gifts or donations;
- u home office running expenses:
  - l cleaning
  - l cooling and heating
  - l depreciation of office furniture
  - l lighting
  - l telephone;
- u interest and dividend deductions:
  - l account keeping fees
  - l ongoing management fees
  - l interest on borrowings to acquire shares
  - l advice relating to changing investments (but not setting them up);
- u interest on loans to purchase equipment or income earning investments;
- u motor vehicle expenses (business);
- u overtime meal allowances;
- u rental property expenses – including:
  - l advertising expenses
  - l council/water rates
  - l insurance
  - l interest
  - l land tax
  - l legal expenses/management fees
  - l genuine repairs and maintenance
  - l telephone expenses
  - l travelling to inspect property;
- u superannuation contributions by sole traders or substantially unsupported taxpayers;
- u sun protection items;
- u tax agent fees;
- u telephone expenses (business);
- u tools of trade.

# 2007/2008 Year-end Checklist for Business

Many of our business clients like to review their tax position at the end of the financial year and evaluate any year-end strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around two simple concepts – i.e., accelerating business deductions and deferring income.

However, Small Business Entities (SBEs) now have greater access to year-end tax planning due to particular concessions that only apply to them. The SBE system commenced on 1 July 2007 and, unlike the previous Simplified Tax System ("STS"), SBEs do not need to elect to be an SBE – they can pick and choose which of the concessions they wish to use each year (although restrictions still remain in relation to the SBE depreciation rules).

The basic requirement to be eligible for the SBE concessions is that the business taxpayer's annual turnover is less than the \$2 million threshold. The following are a number of areas that may be considered for all business taxpayers.

## Maximising deductions for non-SBE taxpayers

Non-SBE business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- n Prepayment strategies.
- n Accelerating expenditure.
- n Accrued expenditure.

### Prepayment strategies – non-SBE

Any part of the prepayment relating to the period up to 30 June is deductible in full.

In addition, non-SBE taxpayers may generally claim the following prepayments in full:

- expenditure under \$1,000;
- salary and wages; or
- expenditure required to be incurred under law.

*Prepayments can be a little confusing, so before you commit to making a payment please feel free to call us with any queries or assistance if required.*

### Accelerating expenditure – non-SBE

This is where a business taxpayer brings forward the expenditure on regular, on-going deductible items. Non-SBE taxpayers are entitled to deductions on an "incurred basis".

Therefore, there is no requirement for the expense to be paid by 30 June 2008. As long as the expense has genuinely been incurred, it will generally be deductible.

## Checklist

The following may act as a checklist of possible accelerated expenditure:

- q **Depreciating assets** costing \$100 or less can be written off in the year of purchase. Depreciating assets costing less than \$1,000 can be allocated to a low value pool and depreciated at 18.75% (which is half of the full rate of 37.5%) in their first year regardless of the date of purchase.
- q **Repairs** – repairs to office premises, equipment, cars or other business items.
- q **Consumables/spare parts.**
- q **Client gifts.**
- q **Donations.**
- q **Advertising.**
- q **Fringe benefits** – any benefits to be provided, such as property benefits, could be purchased and provided prior to 30 June 2008.
- q **Superannuation** – contributions to a complying superannuation fund, to the extent contributions are actually made (i.e., they cannot be accrued).

*Note that the age-based limits on the deductibility of superannuation contributions were removed from 1 July 2007, basically*

meaning all employer contributions are now deductible. However, an employee who receives employer contributions in excess of their own concessional contributions cap may have to pay more tax.

## Accrued expenditure – non-SBE

Non-SBE taxpayers (and some SBE taxpayers) are entitled to a deduction for expenses incurred as at 30 June 2008, even if they have not yet been paid.

The following expenses may be accrued:

- ⊓ **Salary or wages and bonuses** – the accrued expense for the days that employees have worked but have not been paid as at 30 June 2008.
- ⊓ **Interest** – any accrued interest outstanding on a business loan that has not been paid as at 30 June 2008.
- ⊓ **Commercial bills** – the discount applicable to the period up to 30 June, where the term of the bill extends past 30 June 2008.
- ⊓ **Commissions** – where employees or other external parties are owed commission payments.
- ⊓ **Fringe benefits tax** – if an FBT instalment is due for the June 2008 quarter for example, but not payable until July, it can be accrued and claimed as a tax deduction in the 2008 income year.
- ⊓ **Directors' fees** – where a company is definitively committed to the payment of a director's fee as at 30 June 2008, it can be claimed as a tax deduction.

## Maximising deductions for SBE taxpayers

Deductions can be maximised for SBE business taxpayers by **accelerating expenditure** and **prepaying** deductible business expenses. Former STS taxpayers using the STS cash method cannot accrue expenses, but other SBE taxpayers on an accruals basis can also accrue expenses (see above for accruing expenditure).

## Accelerating expenditure – SBE

Former STS taxpayers using the STS cash method\* are generally only entitled to deductions if they have paid the amount by 30 June 2008. This includes general deductions, tax-related expenses, and repairs.

\* The requirement for STS taxpayers to use the cash method ceased from 1 July 2005.

All SBE taxpayers can choose to write-off depreciable assets costing less than \$1,000 in the year of purchase. Also, assets costing \$1,000 or more with an effective life of less than 25 years can be depreciated at 15% (which is half the full rate of 30%) in their first year.

Therefore, where appropriate, SBE business taxpayers should consider purchasing these items by 30 June 2008.

*Note: SBE taxpayers (including former STS taxpayers) choosing to use the SBE depreciation rules are effectively 'locked in' to using those rules for all of their depreciable assets.*

## Prepayment strategies – SBE

SBE taxpayers making prepayments before 1 July 2008 can choose to claim a full deduction in the year of payment where they cover a period of no more than 12 months (ending before 1 July 2009). Otherwise, the prepayment rules are the same as for non-SBE taxpayers.

The kinds of expenses that may be prepaid include:

- ⊓ **Rent** on business premises or equipment.
- ⊓ **Lease payments** on business items such as cars and office equipment.
- ⊓ **Interest** – check with your financier to determine if it's possible to prepay up to 12 months interest in advance.
- ⊓ **Business trips.**
- ⊓ **Training courses** – consider booking and prepaying courses that run on or after 1 July 2008.
- ⊓ **Business subscriptions.**
- ⊓ **Cleaning.**

## Information Required

We will need you to bring the following information to help us prepare your income tax return:

- ⊓ Stocktake details as at 30 June.
- ⊓ Debtors listing (including a list of bad debts written off) as at 30 June.  
*Note: In order to claim a deduction, the debt must be written off on or before 30 June.*
- ⊓ Creditors listing as at 30 June.