COLLEDGE'S
Accountants and Advisors

Inside this issue:

The 2010 tax year seems to be disappearing quickly; Easter is now behind us and the football season is in full swing. We are now rushing to finalize last years late returns and beginning to think about tax planning for clients pre June.

It is always difficult to be pro-active with every client without getting the feeling we are pestering them with suggestions. We have tried to fill this newsletter with content that will be informative for you and that will prompt you to call upon us if you need our advice in making your tax and accounting more efficient.

The next budget will be announced shortly and again we expect to see changes in the way we plan for your tax and investments we would like to take this opportunity to remind you of some of the changes that are now in place so as best to prepare your 2010 tax return.

Tax Planning

Tax planning can significantly reduce any tax liability for the year but leaving it until the last minute or, worse still, not giving it any thought at all, can be very costly.

It is worth considering appropriate strategies now, as setting them up can take time and once the magic date of 30 June has passed… its too late.

It is also worth considering implementing any plans regarding structure before the May budget to take advantage of any "grandfathering" clauses in any new or changed tax approaches.

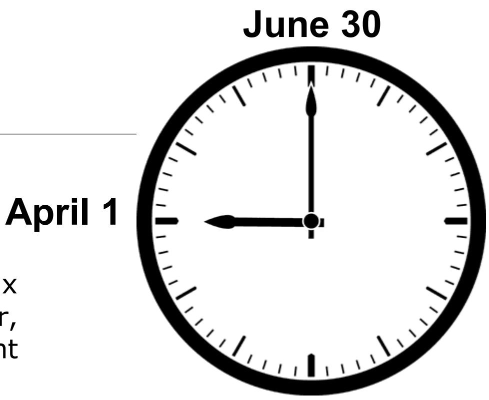
A general rule is that, where possible, it is preferable to defer income until after the end of the financial year, but claim expenses in the current year. At the very least, this will defer the payment of tax for a year.

The current tax rates are:

$0—$6,000	Nil
$6,001—$35,000	15c for each $1 over $6,000
$35,001—$80,000	$4,350 plus 30c for each $1 over $35,000
$80,001—$180,000	$17,850 plus 38c for each $1 over $80,000
$180,001 and over	$55,850 plus 45c for each $1 over $180,000

*Note the tax rates do not include the medicare levy of 1.5%

Tax Planning



30th June is Fast Approaching!

Consider the following points when planning 30 June 2010 returns.

Personal tax tips

Work related expenses

Ensure all work related expenses have been paid by 30 June and that receipts have been kept. Work related subscriptions for the year ended 30 June 2011 and other prepayments can be claimed in the 2010 year provided the prepayment is actually made prior to 30 June 2010.

Vehicle log books

Motor vehicle logbooks should be reviewed and updated where necessary.

A new logbook is required every five years or as requested by the Tax Office.

Superannuation contributions

If less than 10 percent of assessable income, reportable FBT and reportable Employer Super Contributions is from employment, you can claim up to a maximum of $50,000 if you are over 50, whilst the limit for those aged under 50 is $25,000.

When making a deductible contribution, remember that any contributions made by an employer will count towards this limit. Care needs to be taken when making this contribution as the definition of income for calculating the 10 percent of assessable income test has changed from 1 July 2009.

Those not able to claim a deduction for personal contributions may still wish to make an undeducted superannuation contribution.

This will not change the tax liability in the current year, but can result in significant tax savings in the future.

Undeducted contributions are limited to $150,000 per year, however in some situations individuals are allowed to contribute $450,000 every 3 years.

Superannuation Pension options

For those aged 55 and over, consider commencing a pension from the superannuation fund. This may result in tax savings for both the individual and the fund.

For those aged between 55 and 60, there will be some tax payable on any pension drawn, but this will be at a lower rate than the equivalent amount of salary or investment income. Those who are still working are entitled to commence a pension under the transition to retirement provisions.

Interest payments

Interest is taxable in the year that it is actually received. Therefore any interest on term deposits which mature after 30 June will not be taxable until the next financial year.

If possible make a prepayment of interest on investment loans prior to 30 June. A deduction is available for interest which is prepaid for up to 12 months. The usual rules will apply requiring the incurring of the interest to be linked with the production of income.

Capital gains

Capital gains and losses are realised at the time that the sale contract is signed. Where possible, defer the signing of any sale contracts which will result in a capital gain until after 30 June. Also, review any capital losses that are available to offset against gains that have been realised in the current year.

Seniors

The good news is that the government's proposal to include lump sum withdrawals and gross pension payments from superannuation funds in the income test for the Commonwealth Seniors Health Card was dropped. However, concessional contributions into super from 1 July 2009 are now counted under the incomes test which has resulted in a number of you who previously qualified losing access to this benefit.

Many Australians may be working longer under changes to the pension eligibility age. Under the new rules to be phased in by 2023, people born after 1 January 1957 will not gain access to the Age Pension until they are 67. the current eligibility age for the pension is 65 for men and 63.5 for women.

Health Insurance

High income earners will receive a lower tax rebate for their private health insurance premiums. The Medicare levy surcharge will also increase for some high income earners who choose to opt out of private health insurance. In addition new private health insurance tiers will be introduced from 1 July 2010.

Existing arrangements will remain unchanged if your income is less than $75,000 per annum (single) or $150,000 per annum (families). A website to compare health insurance premiums is www.select.com.au

Business Structure

Do you need to look at your business structure?

Tax planning includes holding your assets in the right structure. The right time to establish a structure to run a business or purchase an asset is before you sign the cheque.

If you would like to discuss the benefit of a Company Structure, Family Trust, SMSF or any other structure give us a call and we can set it up.

School Tax Tips

If you have children of school age you should be entitled to claim your education expense refund from the government.

For every child you have at primary school, 50% of expenses up to $780 can be claimed as a refund and for children of high school age the expense amount is $1,558.

Before you claim make sure the items of expenditure you are claiming are acceptable items such as laptops, educational software, textbooks, etc.

Business tax tips

Employees' super

Superannuation contributions for employees are only deductible to the business when they are paid. So businesses should try to pay contributions prior to 30 June.

PAYG installments

PAYG installment obligations should be reviewed and consideration given to varying the instalment for the June quarter where the estimate of business income tax payable for the year is less than the instalments raised by the ATO.

Company loans

Business owners who have borrowed money from their company must ensure that the appropriate interest is charged on the loan and minimum repayments are made prior to 30 June.

Where the loan does not meet ATO specifications, the entire amount may be deemed to be a dividend and paid to the shareholders and taxed accordingly.

Plant and equipment

Businesses that purchased new plant and equipment to take advantage of the government's investment allowance should ensure that the new item is installed ready for use prior to 30 June to claim the tax incentive deduction in the current year.

Small business rules

For businesses with turnover of less than $2 million, expenses that are prepaid for up to 12 months are deductible in the year of the prepayment.

Plant and equipment costing less than $1,000 is deductible in full in the year of purchase.

Items costing $1,000 or more are deductible at a rate of 15 percent in the year of purchase, then 30 percent per annum in subsequent years. Where possible, consider bringing forward the purchase of new plant and equipment to occur prior to 30 June.

Large business rules

For businesses with turnover of more than $2 million, depreciation schedules should be reviewed to ensure that they do not contain items which are no longer on hand which should be written off.

When selling a depreciable asset, the amount written off will be reduced by any proceeds received.

Stock on hand as at 30 June should also be reviewed to ensure that it is valued at the lower of cost or realisable value. Obsolete stock that has no value should either be valued at nil or scrapped prior to 30 June.

Debtors

Review debtors and write off any bad debts prior to 30 June. A GST refund can also be claimed for any amount previously remitted to the ATO on those debts.

Superannuation

Over the last 12 months there has been a significant amount of discussions in the media about the Global Financial Crisis or GFC.

Many clients who have superannuation funds whether it be an Industry Fund, a Retail Fund, a Master Fund or a Self Managed Super Fund will have been impacted in respect to investment performance. Most of us saw a fall when the impact of the GFC hit and a rebound in account balances in many funds as the world and Australian markets recovered from the GFC.

A review of superannuation is vital. It is important to clearly understand the make up of your superannuation portfolio and how it is placed to provide for your retirement in the future.

Asset classes vary from fund to fund, and the security of capital is substantially different dependant on what options you select for your fund.

The fact is that many Property Based Funds still remain closed or are in default of their loans and Mortgage Funds are frozen for redemption, and it is therefore important to know exactly how and where your Super Fund is investing and exactly what investment choices you have to choose from.

One investor may have had excellent returns from property investments over the last 2 years whereas others may have lost up to 50% of their capital, it all depends on which Property Fund was chosen.

If you don't know what you have and would like to do a review of your superannuation fund, do not hesitate to ask for our assistance.

A quick checklist to help with your review:

- Do you have enough in your super
- How does investment return compare to similar funds.
- Is the insurance component of your super suitable to your needs
- Are the fees reasonable for the benefits
- Do you have access to Direct Shares and a large choice of investment types
- Are the reports timely and simple to read

Using a Finance Broker

The benefits of using a Competent Finance Broker for Home Loans, Business Loans, Leasing of Vehicles and Equipment can be critical to not only getting the best rate but also ensuring that you have the most tax effective solution to any deductibility of finance. With the big 4 banks in a battle for market share, and the emergence of some niche players in both the Home Loan space and Vehicle Finance market the difference between rates has widened in recent weeks.

The government has taken away the government backed Guarantee which has given many lenders greater flexibility to funding and as a result improved competition.

Self Employed clients will also benefit from understanding which banks are "in the market" at given times. Different banks have periods in their lending cycle or loan book when they are looking for new business volume, and at other times they are holding a tighter lending policy as their lending funds are at capacity. This was particularly evident at the niche end of the market during the period the government banking guarantee was in place.

Vehicle Finance

In discussing tax benefits for vehicle finance and equipment finance its important to realise that products have different tax treatments. When you finance an asset you need to know the difference between:

- ❑ Novated Lease
- ❑ Standard Lease
- ❑ Chattel Mortgage
- ❑ Hire Purchase

Too often when we go to do your tax return we can see clients have financed with the wrong product and as such do not get tax relief when they otherwise could have.

If you would like us to obtain a finance quote under the right structure we can help. Just call and ask.

Reviewing Credit Cards

Credit card debt in Australia is topping record highs and many families have overspent under a regime that has seen the availability of credit in this form almost too good to be true.

Credit cards do have their place but like Superannuation, Business loans, and other products where there is so much choice in the market it is wise to compare the offers on such products.

Credit cards come in quite a number of forms, the main one being in the form of interest free days on purchases. This is a very common feature of credit cards and possibly the most useful tool in ensuring you can benefit from spending with credit cards. Not only can interest free days on purchases save you money on interest charges for your credit card, it can also be used in conjunction with a redraw facility on a loan to minimize those interest charges as well.

Interest free credit cards must be used correctly in order to benefit from them. You cannot just use the interest free period as a way of delaying your repayments, as you will need a schedule to ensure you repay on time. Interest free days often lead people into debt by causing them to become too lax in repayments. If you want the greatest benefit from interest free credit cards you should only spend within your means to repay within the interest free period and always be sure to pay on time.

One strategy, that has been used by a number of people when they have fallen behind with payments, is to refinance their existing card into an interest free period or an introductory interest rate period card.

The biggest trap with this is you have an additional credit card, so if you don't cancel the old credit card you can be in a position where you dig a deeper hole and increase the debt level even further.

It is important to remember that you will receive up to a certain number of interest free days on your purchases, but very rarely will you receive the maximum. Essentially, a billing period begins and so do the interest free days. If you have up to the usual 55 interest free days on purchases and buy something 3 days after the period begins and something else 7 days after, on the eighth day after the interest free period has begun both purchases will have just 48 interest free days remaining.

An excellent web site that compares credit cards is www.canstar.com.au

The site gives information in regards to the interest free transfer offers that are current as well as the fees, rates card and card holder benefits each card offers.

Take a look at the web site and if you are overpaying consider making the change.

Maintaining Accurate Records

You know you're having a bad day when you get an $88,000 FBT bill from the Tax Office for a car that you thought was exempt. This is exactly what happened to one taxpayer.

A sole director of a company bought a Lexus in June 2004 for $119,000. The Director purchased the car through his company for use in the business (100% business use by the Director). The company operated from the same block of land as the Director's principal place of residence but the two buildings were divided by a wall and had separate driveways and letterboxes. As the car was for business use and garaged at the business, it was assumed that FBT did not apply and as a result, no FBT returns were lodged. No log books were kept evidencing the business use of the car until the Tax Office announced their intention to audit the business.

(Continued)

Following an FBT audit in 2009, the Tax Office issued the Director with an assessment for just under $88,000 in outstanding tax. The Director challenged the Tax Office's assessment as "excessive" but lost. The reason for the assessment is that the FBT Act states that a vehicle will be available for private use (and subject to FBT) if the car is garaged or kept "at or near a place of residence of the employee or an associate of the employee." In this case, the Administrative Appeals Tribunal found the Lexus was kept 'near' the Director's place of residence and as a result, gave rise to a car fringe benefit for each day it was garaged there.

Another complicating factor for the Director and the company was that the operating cost method, commonly called the log book method, could not be used to evidence the business use of the car. To use the operating cost method you need to make an 'election' to the ATO that you will be using this method and keep a log book and other appropriate records. The Director only had a partial log book compiled after the audit was announced. The Tax Office will accept the non-lodgment of an FBT return as an election if there are no taxable fringe benefits. However, and this is the important part, you still need to keep a log book and other documents to show how you arrived at a nil FBT position.

If there are no records to show how you arrived at a nil FBT position, the statutory method will apply instead. The statutory method uses a prescribed formula to calculate the FBT liability which hinges on the number of days the car fringe benefit is provided (in this instance, 365 days a year!). As no election to use the operating cost method had been made in this case, the Tax Office used the statutory method to calculate the company's FBT liability.

Salary Packaging

Looking at the tax effectiveness of both business and private vehicles is something we can help with; feel free to discuss any private or business motor vehicles you have so we can advise on what structure is best for optimizing the tax effectiveness of the vehicles.

One area that many clients are unaware of is the benefits of salary packaging a private motor vehicle in your salary.

The vehicle does not have to be used for business. The Employer deducts the budgeted expenses from gross salary, offsetting the FBT amount within your salary package.

The vehicle expenses such as petrol, lease payments, costs of repair, insurance, servicing and the like are all paid for by a dedicated credit card, with a monthly budget established to a set amount of expense deducted from gross salary. The tax savings can be significant.

Not all employers offer the ability to salary package but our office can assist with a simple solution that is free to the employer, and makes it easy for all employers to offer this employee benefit.

Appointment

If there is any area that you would like to discuss in relation to this newsletter or you would like to make an appointment to discuss 2010 tax planning, lodging late returns or any other matter, please give us a call.

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