COLVILLE WILLIAMS & CO. PTY LTD

TAX NEWS

June 2013

Colville Williams & Co Pty Ltd ACN 007 250 231

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Appointment Times

The following times have been allocated for individual tax return preparation:

Fred	Monday	3 pm - 6 pm
Greg	Monday	2 pm - 5 pm
David	Thursday	8 am - 11 am
Paul	Tuesday	8 am - 11 am
	Thursday	3 pm - 6 pm
Adrian	Tuesday	3 pm - 6 pm
Weechan	Monday	2 pm - 4 pm

Merilyn and Catherine are available to make appointments or help in any way.

KINDLY NOTE IT IS NOW MANDATORY TO PROVIDE YOUR BANK ACCOUNT DETAILS ON YOUR TAX RETURNS AS THE AUSTRALIAN TAX OFFICE WILL ONLY CREDIT REFUNDS DIRECTLY INTO A BANK ACCOUNT.

Please do not make an appointment until you have your PAYG Payment Summary and all relevant information. Cancelling appointments in the busy period is unfair to others.

We request that you bring along your bank account details and email address to improve efficiency and speed up your refunds.

Please direct your email enquiries to our new mailbox address: mail@colville.com.au

Office Hours

Our normal office hours are 8:30am to 5:00pm Monday to Friday.

The rear entrance may be closed at 6 pm and entry after this time is via the front door. A buzzer is located next to the door should the door be locked.

Our fees for tax return preparation remain unchanged from last year.

Contents

Is superannuation still relevant?

Over the past few months superannuation has been a key topic of conversation. We have seen a number of changes in recent years, with more coming into effect from 1 July 2013 and yet more proposed amendments announced in the 2013 Federal Budget. Many people may be asking if superannuation is still the best retirement saving option.

The answer is yes, it is. Even with all the changes, superannuation still provides a number of key benefits that can help you retire comfortably and it is still one of the most tax effective ways of saving for the long term.

EVEN WITH ALL THE CHANGES, SUPERANNUATION STILL PROVIDES A NUMBER OF KEY BENEFITS THAT CAN HELP YOU RETIRE COMFORTABLY AND IT IS STILL ONE OF THE MOST TAX EFFECTIVE WAYS OF SAVING FOR THE LONG TERM.

The government has long promoted super as a means to improve the levels of national saving and to encourage more people to self-fund their retirements. For those willing to sacrifice today and put money aside for their own retirements there were generous concessions to be gained. Some would argue that the concessions afforded to superannuation went too far and predictably some of the "excesses" have been curbed in tougher economic times.

Measures such as allowing a person to make concessional contributions of $100,000pa or tax free pension payments after age 60 might have simplified the rules of the past and provided a boost to national savings, but they failed the equity test. It takes many years for the Government to "break even" when comparing the significant tax savings given to someone in lieu of paying them a Government aged pension.

However, most of the benefits and advantages of the superannuation system still apply.

- While concessional contribution limits are capped at $25,000pa, it is still a sizable amount of money to be able to put aside;
- Superannuation earnings are still taxed at concessional rates - 15% or tax free for those in pension phase;
- Transitional pensions can still be accessed at age 55, even if you are still working;
- Pensions and withdrawals are still tax free to those who have reached age 60;
- Strategies to transfer assets into super to take advantage of the 15% tax rate on earnings still apply;
- Strategies to access certain Centrelink benefits still apply;
- Salary sacrifice and Transition To Retirement strategies remain effective, as do re-contribution strategies;
- Strategies to use life insurance inside super to fund tax free death benefits still apply;
- Indeed super, and self-managed super in particular, provides tremendous flexibility and benefits for estate planning.

In fact, little has actually changed other than the numbers at the outside margins. The majority of people don't have more than $25,000pa to contribute to super to get a tax deduction. The majority of people won't have earnings in excess of $100,000pa to have to worry about some of the latest pre-budget announcements.

What the majority of people do have is the need to put away consistent amounts of money, especially in their late 40's to early 60's, to ensure a large degree of financial freedom and comfort in their retirement.

2013 Budget News–Individuals and Families

THE BUDGET ANNOUNCED BY THE FEDERAL GOVERNMENT LAST MONTH PROVIDED ITS FAIR SHARE OF TWEAKS TO TAX RATES AND THRESHOLDS, AS WELL AS SOME MORE FUNDAMENTAL CHANGES TO LEGISLATION. PLEASE NOTE THAT WE HAVE NOT INCLUDED ALL OF THE MEASURES ANNOUNCED BY THE FEDERAL GOVERNMENT, BUT ONLY THOSE THAT WE FEEL ARE SIGNIFICANT TO INDIVIDUALS.

2013/14 Tax Rates - Resident (excluding Medicare Levy)

Tax cuts that were promised in the 2012 Federal Budget have been deferred. The existing tax rates continue to apply:

Taxable Income:			**Tax Payable:**
$0	To	$18,200	Nil
$18,201	To	$37,000	$0 + $0.17 for every dollar over $18,200
$37,001	To	$80,000	$3,344 + $0.325 for every dollar over $37,000
$80,001	To	$180,000	$17,547 + $0.37 for every dollar over $80,000
$180,001	+		$54,547 + $0.45 for every dollar over $80,000

Low Income Rebate

The low income rebate remains unchanged from the 2012/13 year.

Effectively the low income rebate increases the tax free threshold to $20,452.

Medicare Levy to increase to 2%

The Medicare Levy will increase from 1.5% to 2.0%, but not until the 2014/15 financial year.

This means that the effective top marginal tax rate will become 47% from that date. Of course, not everyone pays the Medicare levy, so the increase will not affect all taxpayers.

HELP discounts to be abolished

The government will remove the discounts applying to up-front and voluntary payments made under the Higher Education Loan Program (HELP) from 1 January 2014. The discounts to be removed are:

- The 10% discount available to students electing to pay their student contribution up-front
- The 5% bonus on voluntary payments to the ATO of $500 or more

TAX TIP Make voluntary repayments before 31 December 2013 to maximise the discount available

Net Medical Expense Tax Offset - To be abolished

Subject to transitional provisions, the tax offset which applies to out-of-pocket medical expenses will be abolished from 1 July 2013. However, the offset will continue to be available for medical expenses relating to disability aids, attendant care or aged care until 30 June 2019.

Under the transitional provisions, anyone who makes a claim for this offset in the tax year ending 30 June 2013 will be eligible to claim an offset in the year ending 30 June 2014. And those who claim in the year ending 30 June 2014 will be eligible to claim an offset in the year ending 30 June 2015.

For the year ended 30 June 2013, a 20% offset is available for net medical expenditure over $2,120 for taxpayers with adjusted taxable incomes below the Medicare levy surcharge thresholds ($84,000 for singles and $168,000 for families). Taxpayers with adjusted income above the relevant threshold may claim a 10% offset for net medical expenditure above $5,000.

TAX TIP Consider bringing forward any medical expenses into the 2013 financial year or lose the chance to claim in 2014.

Business News

Contractors and the new Taxable Payments annual report.

Recently the Australian Tax Office began writing to taxpayers in the building and construction industry to remind them about their obligations under the new Taxable Payments reporting system. Business operators in the building and construction industry are now required to report on all payments made to contractors from 1 July 2012. The system is similar in nature to the old Prescribed Payments System which operated prior to the introduction of GST. If you are caught up in this new system you will be required to submit a Tax Payments annual report for the year ending 30 June 2013 by 21 July 2013. For this first year of reporting a concessional lodgment date of 25 August 2013 will apply for tax agent prepared and lodged annual reports.

Who needs to report?

You are required to report if:

- you are a business that operates primarily in the building and construction industry; and
- you make payments to contractors for building and construction services; and
- you have an ABN.

If you are unsure whether you are in the building and construction industry, please contact us and we will guide you through the process.

Information required in the new report will include

- Contractor's name and address;
- ABN;
- Gross amount you paid for the financial year, inclusive of GST; and
- Total GST included in the gross amount you paid.

You will need to report payments you make to contractors for building and construction services. A contractor can be an individual, partnership, company or trust. Building and construction services are not limited to the supply of labour alone and can also include payment for materials and supply of machinery. You are not required to report on any payments that are for the supply of materials only and you do not have to report if you are a home owner making payments to contractors – for example, if you are renovating your own home.

Contractors in the building and construction industry

If you are a contractor in the building and construction industry, these are changes you need to know about. This new reporting system has been set up to identify those contractors who have not included all their income on their tax return, or not lodged tax returns. If you are meeting all your tax and reporting obligations you do not have to be concerned. If you think you may not have met your obligations please contact us urgently to review your situation.

Personal Property Securities

The Personal Property Securities Act 2009 took effect last year and makes wholesale changes to the way security interests in personal property are registered. It has also radically changed the notion of legal title over such property. There will be far reaching consequences for those who fail to understand how the new law will affect them and their assets will be at risk.

What is personal property?

Personal property is any property other than land. It includes:

- Tangible assets such as goods, livestock, trading stock, motor vehicles, machinery , equipment and debtors; and
- Intangible assets such as licences, intellectual property, trademarks, and investment instruments.

What is a personal property security?

A personal property security is an interest in personal property that secures a payment or performance of an obligation. The new Act affects well established forms of secured finance, however, it also affects other transactions that are not ordinarily thought of as security arrangements. Arrangements such as lease of personal property and commercial consignments, including retention of title arrangements are also affected.

Does it affect you?

Do you

- Sell goods on credit?
- Provide credit facilities in any form, including to related parties?
- Make loans or advances of funds to anyone including related parties?
- Have goods or assets located at other people's premises?
- Rent, lease or hire goods to others, including to related parties?
- Supply goods on retention of title terms?
- Supply goods on consignment or stored off site?
- Grant licences to other parties to use any of your products, trademarks or intellectual property?
- Plan to enter into and pay a deposit for a conditional sale or purchase contract?
- Intend to take security over certain assets?
- Have guarantors with charging clauses in your favour?
- Have assets or funds held on trust by other parties?

If you have answered yes to any of the questions above, the PPSA legislation is likely to have an effect on your business.

Issues to consider:

- How should your goods be described?
- What are the risks of not registering?
- Is adopting security under the PPSA of commercial benefit?
- Can you obtain a written agreement?
- Will your security have priority over others with security?

As a result of PPSA, businesses should exercise caution should they find themselves in the following circumstances:

- Being approached by parties seeking to amend or enter into new security arrangements. Take care when reviewing the new agreement to ensure that additional security is not provided.
- When purchasing goods or a business, a security interest may not be disclosed in respect of the property being purchased. Purchasers should check the security register.
- Businesses should regularly monitor security registrations against their own structures to ensure that only valid security interests are being registered.
- When investing or borrowing to invest, ensure you are fully aware of your rights.

We recommend you review your situation and obtain assistance from your lawyer if required. We have access to excellent legal firms to assist you with these reviews.

TAX TIP If you are considering updating any software or operating system, check first to ensure that your critical applications will be able to operate. This may be simple for generic software, but may require the assistance of an I.T. specialist for industry or entity specific programs.

Thinking of upgrading your computer?

We note that in October 2012 Microsoft released its new operating system 'Windows 8' for general availability.

We don't need to discuss the pros and/or cons of upgrading to Windows 8 – that's a decision for each user/business based on their needs.

However, you should exercise caution. We have had a few instances where clients have updated to Windows 8, only to find that applications critical to their business - whether they be 'off the shelf' software, or software specifically designed and built for the business – have not been compatible.

Directors' duties regarding insolvent trading

When people go into business they set out to be successful, however statistics tell us that over 50% of businesses fail within the first five years. Not only do directors want their company to pay its debts on time, they also have an obligation to ensure that they do.

Under Corporations Law, directors have certain duties imposed upon them, including:

- Act in the best interests of the company;
- Not use their position to their own advantage at the detriment of the company;
- Not use information to benefit themselves or someone they know at the detriment of the company;
- Ensure adequate records of the company's finances and performance are kept;
- Ensure they are constantly aware of the company's finances and to not allow the company to trade while insolvent.

Insolvent trading

A company is considered to be insolvent when it cannot pay its debts as and when they fall due. Before incurring a new debt, directors must consider whether the company is able to pay that debt, or will become insolvent as a result of taking on that debt, or is already insolvent. A number of defences may be available to directors when charged with insolvent trading but it is obviously better to avoid being in that situation in the first place.

Increased compliance and recovery action by the Australian Tax Office places even more emphasis on making sure that your company continues to trade solvently. Directors often overlook the fact that they can be held personally liable for their employees' PAYG withholding and superannuation guarantee contributions. Accordingly, directors should exercise particular care if they cannot meet these obligations on time.

Given the consequences of insolvent trading, it is imperative for directors and business owners to be aware of their company's financial position at all times, not only to ensure profitability but also to minimise the risk of personal liability.

If you are unsure of your position, please contact us to review your circumstances. Should the need arise we can refer you to specialist insolvency practitioners for assistance.

Changes to Small Business Concessions in 2012/13

There are a number of important changes for small business entities in the 2012/13 income year that you should know about, including:

- Small businesses can now claim (write off) an outright deduction for most depreciating assets purchased for less than $6,500 each.
- An immediate deduction of $5,000 may be claimed for motor vehicles that are bought by a small business. The remainder of the cost is deducted through the general small business pool. (Note, although this sounds good, it might not be suitable to many taxpayers).
- Both the long-life and general business pools have been consolidated into a single pool which is deducted at 30%.
- The entrepreneurs' tax offset has been abolished from 2012/13.

Small Business Superannuation Clearing House

Tired of making a dozen different payments to a dozen different super funds?

If your business employs 19 or less people, and you find yourself devoting far too much time to paying the superannuation contributions to various super funds (now that employees have the right to choose!), why not take advantage of the Government's 'Small Business Clearing House'.

This service allows you to make one payment to the clearing house, which is then allocated to various employees and superannuation funds via online access. The clearing house takes care of the rest.

And best of all, it's a free service!

Superannuation Payments – New 'Data and E-commerce standard'

The ATO will be introducing new 'standards' with regard to the processing and payment of superannuation contributions. These standards will be mandatory, and will apply from 1 July 2014 for employers with 20 or more employees, and 1 July 2015 for those with fewer than 20 employees.

The details are a bit sketchy at this stage, but it is likely to involve TFN validation checks between the employee details and the superannuation funds where the payments are headed. This measure is hoped to reduce costs associated with reporting errors. It is likely that these validation checks will occur through "AusKey" linked applications.

TAX TIP The Small Business Clearing House will comply with the new standards. So for those employers with fewer than 20 employees, this further adds to its appeal.

Superannuation News

Changes affecting Superannuation Arrangements

In the lead-up to the Budget, the Government announced a raft of changes to the Superannuation System. Many of these changes are yet to be legislated, and there is uncertainty as to

a) Whether these changes will be legis lated in the current parliament; and

b) Whether any changes will be repealed by a coalition government, should it win the election.

For this reason, the discussion of changes to the taxation of superannuation arrangements below is of a general nature only.

Insurance

Trustees of Self-Managed Superannuation Funds will be required from 1 July 2013 to consider insurance as part of their investment strategy within the fund. This does not mean that the fund must necessarily have insurance, but the trustees must be able to show that it was considered.

While some smaller funds may find insurance costs expensive, they must nevertheless consider whether the members should have coverage within the fund. Insurance needs are often overlooked, so we envisage this measure will provide SMSF members with greater benefits and risk management in the long run.

Ordinarily, a taxpayer cannot claim a tax deduction for life insurance premiums. But if the policy is owned by the super fund it can claim a tax deduction for the cost of the premiums.

We will be contacting all SMSF trustees separately regarding this matter.

Changes to the Higher Concessional Contributions Cap

From 1 July 2013 onwards, people aged 60 or more will be able to make concessional contributions of $35,000 per year. For the following financial year, this will apply to people aged 50 or more.

The Government had previously announced the intention to limit access to this higher cap to those with superannuation balances of less than $500,000. This limit will no longer apply.

Implications: For those taxpayers approaching 60, consider reviewing any personal contributions, transition to retirement strategies, as well as existing salary sacrifice arrangements.

Changes to the Taxation of earnings from assets supporting income streams

The Government intends to change the taxation treatment of earnings from assets supporting income streams (e.g. pensions), so that only the first $100,000 of earnings is tax exempt, with any excess to be taxed at 15% (the rate that applies to earnings on accumulation balances).

Transitional rules will apply so that existing assets with large unrealised gains will not cause large tax bills when they are ultimately disposed of (as the profit may exceed the $100,000 threshold)

Implications: For taxpayers with large superannuation balances, the implication of this new law is significant. Once the detailed legislation has been passed, we strongly recommend a review of your existing superannuation strategies.

Tax Rate of 30% for high income earners

Previously announced, individuals with income greater than $300,000 will have their concessional contributions taxed in the super fund at 30% rather than the standard 15% rate.

We note that the definition of income for this measure is not an individual's 'taxable income', but their 'adjusted taxable income'. This is the same measure used to calculate whether the Medicare Surcharge applies (it takes into account reportable fringe benefits, reportable superannuation contributions and any total net investment losses).

Earnings in the super fund from these contributions is still taxed at the concessional 15% or 30% rate, which is still better than the 47% rate that would otherwise apply had the contributions not been made.

Implications: Reduces (but does not eliminate) the appeal of the superannuation structure for taxpayers affected.

Other changes announced

- The Government is looking to allow individuals to withdraw excess contributions (in certain circumstances) from their superannuation fund. These contributions will then be taxed to the individual at their marginal rates. This seeks to overcome this issue of employees unintentionally exceeding the concessional contributions cap, possibly as a result of having multiple employers during a year. Conditions and limits will apply.
- From 1 July 2014, deferred lifetime annuities will be granted the same concessional tax treatment as superannuation assets supporting income streams.
- From 1 January 2015, the social security deeming rules will apply to account based pensions. Grandfathering provisions are likely to apply for pensions in place before this date.
- From 31 December 2015, the account balance threshold for all lost super accounts to be transferred to the ATO, will be increased from $2,000 to $2,500, and then to $3,000 from 31 December 2016.

Superannuation, like income tax, is a moving feast, with rule changes regularly announced, discontinued and/or deferred. It is therefore important that should your circumstances change, or if you are considering entering into any significant transactions, don't base your decisions on newspaper articles. Give us a call for some advice!

The significance of 30 June 2013 being a Sunday

Employers need to plan for the fact that 30 June 2013 is a Sunday, which means superannuation contributions that need to be made by 30 June 2013 must be 'made' (i.e. received by the fund), by Friday, 28 June 2013. This is not an issue for SG contributions because an employer has until 28 July 2013 to make contributions for the June 2013 quarter; but it may, nevertheless, be an issue for an employee because a contribution not received by a fund until Monday, 1 July 2013 would be counted as a contribution for 2013–14 which could lead to an excess contributions tax liability.

Employees have, in a number of cases, been liable to excess contributions tax because superannuation contributions under a salary sacrifice arrangement were not received by a fund until after 30 June. These cases have been a painful reminder to employees that:

- the critical time is when a contribution is received or credited by a fund, and not, for example, when an employer makes an electronic funds transfer
- a contribution to the Superannuation Clearing House administered by Medicare Australia is counted as being made to a superannuation fund when it is received by the clearing house, but a contribution made to a non-approved clearing house is not taken as being made to a superannuation fund until it is actually received by the fund.

Changes to Laws regarding Inactive Bank Accounts

The Federal Government has amended laws so that from 31 May 2013, the funds in any bank accounts which have been inactive for more than three years, will be transferred to the Federal Government.

The law classes an inactive account as one which has had no deposits or withdrawals. **Note that the payment of interest on a balance is not considered a deposit!**

Whilst this cash won't be lost to the taxpayer forever – a claim can be lodged with ASIC to have these funds returned - it will likely be an arduous process.

TAX TIP If you have any old bank accounts lying around, or if you have an account which holds untouched cash for a rainy day, it may be a good idea to swing by the bank and deposit a $1.

Social news at Colville Williams & Co

During the middle of 2012 we said good bye to Tiffany Di Martino who left to obtain work closer to home and we welcomed a new graduate accountant Daniel Jones, who is studying to become a CPA.

Sudy Jagpal commenced with us in January 2013. He specialises in superannuation and is studying to be a Chartered Accountant. Sudy is married and plays indoor soccer outside of work.

Kishani Sandanayake has taken a career break to spend time with her young family and to begin other work ventures of her own. Kishani officially left us in April 2013 and was with the firm for six years, we wish her all the best.

Elena Syrkina and Adrian Monarca achieved their CPA qualifications in December 2011 and September 2012 respectively. Both achieved extremely high scores in their exams and are a great asset to our team.

Lisa and Paul White welcomed their second child, Henry, on 6 August 6 2012. Big sister Ava, now three, was very excited to have a little brother.

Can't make it in to see us?

Consider faxing the information to us on **9432 0808** or emailing to **mail@colville.com.au.**

We can usually prepare simple returns within the week at no extra cost. Don't forget to include your contact phone numbers or email addresses so we can verify any items with you.

Don't forget to keep your receipts

Tax Time Checklist

Personal Information

- ☐ Bank account details for refunds
- ☐ Home email address

Employment and Pension Income

- ☐ PAYGW payment summaries
- ☐ PAYGW Termination payment advices
- ☐ Centrelink Pension certificates
- ☐ Centrelink Unemployment certificates
- ☐ Account Based Pension Payment Summaries (if aged 55 - 60)

Deductions

Diarised Items:

- ☐ Odometer reading @ 30/06/13 (optional)
- ☐ Travel - Business kms
- ☐ Car expenses - petrol
- ☐ Travel - overseas, interstate
- ☐ Minor expenses less than $10 each (max $200)
- ☐ Home office hours

Receipted Items:

- ☐ Car expenses - Rego, insurance, repairs & petrol
- ☐ Uniforms / footwear / dry cleaning
- ☐ Union fees
- ☐ Membership & Subscriptions
- ☐ Tools of trade
- ☐ Computer, printer, internet
- ☐ Income protection insurance
- ☐ Donations

General Items

Medical and Superannuation

- ☐ Superannuation contributions - Self & spouse
- ☐ Private Health Insurance Tax Statement

If medical expenses out of pocket may be over $2,120

- ☐ Medicare Annual Statement of Claims
- ☐ Private health insurance Annual Statement of Claims
- ☐ Chemist annual expenditure printout
- ☐ Details of dental, optometry, etc NOT reimbursed via private health ins

Spouse & Children Details

- ☐ Taxable income
- ☐ Names & dates of birth
- ☐ Family tax benefits status (Centrelink)

Investments

- ☐ Interest Income & Bank charges on interest bearing accounts
- ☐ Internet banking accounts
- ☐ Cash management trust accounts
- ☐ Term deposits
  (Please provide the a/c no. & interest earned for each a/c. We recommend that you get the details in writing from your bank)
- ☐ Dividend income (advices preferred)
- ☐ Share purchase and sale details
  (Please provide a copy of all dividend, purchase and sale advice slips)
- ☐ Margin Lending loan statements (full year)
- ☐ Managed fund annual tax statements

Rental Properties

- ☐ Estate agent annual statements
  (Please request these from your agent, otherwise bring in the monthly payment summaries)
- ☐ Rates notices – council and water
- ☐ Insurances
- ☐ Body corporate fees
- ☐ Land tax
- ☐ Repairs and maintenance (invoices)
- ☐ Loan statements (full year)
- ☐ Purchase and / or sale details
  (Please provide a copy of all estate agent, solicitor and bank documentation relating to the original purchase and the sale if applicable)