



08/09 tax year drawing to a close...

As the 2009 Tax year draws to a close our newsletter is focused on highlighting and helping you prepare for your tax and business planning. Far too often we get to see your return when it is too late to take advantage of many tax planning strategies that may be available to you during the year. Therefore, we hope this newsletter highlights some opportunities specific to your situation. Should you wish to discuss the implementation of any opportunities in tax planning please contact our office.



HOT TOPICS

- Tax Year drawing to a close
- 2009 budget changes
- Key Factors affecting super
- Reduction in personal income tax
- Bonus capital allowance tax deduction
- Agriculture Investments

The Federal Budget on 12 May 2009 was released in the midst of a deepening Global Financial Crisis – a force five global recession unlike any seen since the Great Depression of the 1930's. Everyone has been affected with the government predicting 1 million+ jobless before the recession comes to an end.

Importantly the turnaround in Budget finances has been dramatic with the Government announcing 12 months ago that the 2008-2009 financial year would see a \$21bn surplus – only to change that estimate to a \$58bn deficit, with more deficits in store. The government has a big Budget hole to be filled in order to show themselves as responsible economic managers and someone will have to pay.

With this background it was with great concern that the superannuation industry watched the unfolding of the Budget. Long the favoured tax concessional savings vehicle for tens of millions of Australians, there was much concern that the time had come for the government to begin to limit the size and breadth of the generous concessions. Was Swan going to take back what Costello had given us?

With a great sigh of relief, the Treasurer tinkered around the edges of superannuation leaving the most significant benefit of all – tax free lumps sums and pensions for over sixties intact. Importantly for Trustees of SMSF's the government did not announce any measures specific to these family type of superannuation funds.

Tax planning is not always about making investments, prepaying interest or clearing the accounts before year end.

Often tax planning is about having your investments and assets in the right structure.

The right structure might be having a Self Managed Superannuation Fund, a Company Partnership, Family Trust, Discretionary Trust or acting as Sole Trader.

If you would like to discuss business structures prior to June 30 give us a call.

2009 Budget changes

Deductible contributions

Tax deductible or concessional contributions as they are now known are subject to a cap. Where this cap is breached the member of the superannuation fund will be assessed by the Commissioner on the excessive concessional contribution at a tax rate of 31.5%. From 1 July 2009 the concessional contributions tax cap will be reduced from \$50,000 to \$25,000.

At the same time, the transitional concessional cap for those members over age 50 prior to 1 July 2012 will be decreased from \$100,000 to \$50,000.

The non-concessional contributions caps a member can make into a fund will remain at \$150,000 until 1 July 2010 when the figure will become a factor of 6

Co-Contributions limited

The superannuation co-contribution system, whereby the government matches contributions made by members to a superannuation fund (subject to an income threshold) has been a success in encouraging low income earners to contribute to their superannuation.

Surprisingly many clients including partly employed retirees have been able to access the co-contribution. However the current \$1.50 contribution made by the government for every \$1 of non-concessional contribution has proved expensive.

The government has announced that it will reduce the 150% factor to 100% from 1 July 2009 for the next three income years, rising to 125% on 1 July 2012 and 150% on 1 July 2014.

Minimum Pension Payment reductions to stay

One of the conditions of commencing an Accounts Based Pension is that the pension member must take a minimum pension payment each income year. With the share market down significantly many pension members complained that the existing minimum pension requirements would require a realisation of fund assets at a capital loss.

Capital preservation as opposed to forced income withdrawal was the preferred option for these members. The government announced in February 2009 that the minimum pension factor to be applied to a member's Accounts Based Pension was to be reduced by 50% for the year ending 30 June 2009. *The government has decided to extend this measure for one more financial year.*

Age Pension changes

To keep its election promises the government has increased the following pensions from 20 September 2009:

* Single pension - \$32.49 per week which now combines the GST, telephone, pharmaceutical and electricity allowances;

* Couples pension - \$10.14 per week – a supplement to cover the above allowances.

For those Aged pensioners in receipt of the Commonwealth Health Care Card a seniors supplement will be announced to take the card's place, where assets will not to be included in the test for the supplement - only income.

The government has also announced an increase in the incomes test taper from 40c to 50c in the dollar for a single aged pensioner, and from 20c to 25c for a couple to decrease payments to higher income earners.

Although as a measure to increase the incentive for Aged Pension recipients to remain in the workforce and not lose their pension entitlements – 50% of the first \$500 of employment income in any fortnight is exempt from the incomes test.



Family Tax Benefits A & B

The tax year 2008/2009 was one the government gave special incentives to those on income within the Family Tax Benefits (FTB) levels, this income indicator may very well become the benchmark the government continues to target for any further stimulus incentives.

Set out below are the 2008/2009 income levels and benefits payable under the various (FTB) schedules.

Family Tax Benefit A

The maximum rate is payable where the family income is below \$42,660.

The rate is reduced by 20c in the dollar until the base rate of income is reached at \$94,316 for a family with 1 child. This is increased by \$3,796 for each dependant child thereafter.

Maximum benefits payable

For each child under 13 years	\$4,631.85 pa
13-15 Years	\$5,818.10 pa
16-17 Years	\$1,945.45 pa
18-24 Years	\$2,379.80 pa

Family Tax Benefit B

Child under 5 years	\$3,693.80 pa
5-16 years	\$2,675.45 pa

The income test is \$150,000 for a sole parent and reduced by 20c in the dollar from a starting point of \$4,526pa for the secondary income earner in a family where the principal earner's income is below \$150,000.

A tax refund of 50% of eligible educational expenses is available to parents who receive Family Tax Benefit A.

As these benefits are substantial some tax planning strategies to ensure you maintain these could be suitable.

Superannuation Strategies

The Budget changes mean it is vital to spend time tax planning for year end - 30 June 2009. Some strategies that may apply include:

- For over 50's, retirees and other non employed SMSF members who are able to contribute, a tax deduction is available of \$100,000 prior to year end. Remember this is to be limited from 1 July 2009. **Don't waste this opportunity!**
- The tax deduction may be used where the member contributes shares, managed funds, business property and farming property into the fund – a great way to offset any capital gains tax liability.
- SMSF borrowing is now taking off and with the government's Budget silence on the topic it is vital to look at the ability of a SMSF trustee to borrow to acquire member's assets – *such as those listed above*, or other assets from third parties including residential property, commercial property and shares.
- Life and disability insurance is a must for every member of the fund. Importantly any premiums paid for life and disability insurance are tax deductible to the fund or an individual.
- For those that meet the age requirements, consider the benefits of a Transition to Retirement strategy. This is where you salary sacrifice your income, whilst drawing down an income stream from your super to top up your income. The concessional rates for superannuation are what makes this strategy work. The strategy allows you to put more into super without reducing your net income. Suitable for those looking at winding down their working hours.

Key factors affecting your super

Lost Superannuation: 'Lost' superannuation accounts are still subject to fees and charges. By having more than one super account you are effectively paying two or more lots of fees and charges. The answer to this is *consolidation*. By consolidating your accounts you will pay fees for just one super account, and may even benefit from having a higher account balance which can equal higher returns. To search for unclaimed super go to www.unclaimedsuper.com.au.

Why women are usually worse off than men: Women are often worse off when it comes to their superannuation than men. There are several reasons as to why this is. Firstly, we need to factor in that most women are paid less than their male counterparts, which in effect means less superannuation. Then there is the time away from the workforce, without pay (and without super) to start a family. These financial hurdles, coupled with the fact that women generally live longer create a concern for most women looking forward to retirement.

Risk Profile: Many people think that you cannot change your super and the investments that are invested within. This is an incorrect assumption and needs to be clarified. For every superannuation fund there are usually a range of separate funds that your super can be invested within. Usually, these funds will be reflective of a 'conservative', 'balanced', 'growth' or 'high growth' investor. What this means is the level of 'risk' you want to take with your money. Whether you want your super invested within cash or fixed interest funds (which provide lower risk), or invested within property or shares (which provide higher risk) is dependent on what 'fund' you have selected or been defaulted to within your superfund.

By selecting a risk profile that is more reflective of your personal situation or needs can impact dramatically on your investment returns. You should be able to find a copy of the Product Disclosure Statement (PDS) on the website of your superannuation fund, or ask for a statement to see exactly what your superannuation is invested within.

Note; that if you are considering changing your investment structure we recommend you speak to a super professional first to determine whether this is the best option for you.

Fees, charges and commissions: To manage your superannuation there are management and administration fees that get charged to your account. Where an adviser is listed you may also be paying commission fees from your fund. Although these fees and charges are fairly standard, it is something that you may want to look into if you feel your not receiving good advice.



Reduction in Personal Income Tax

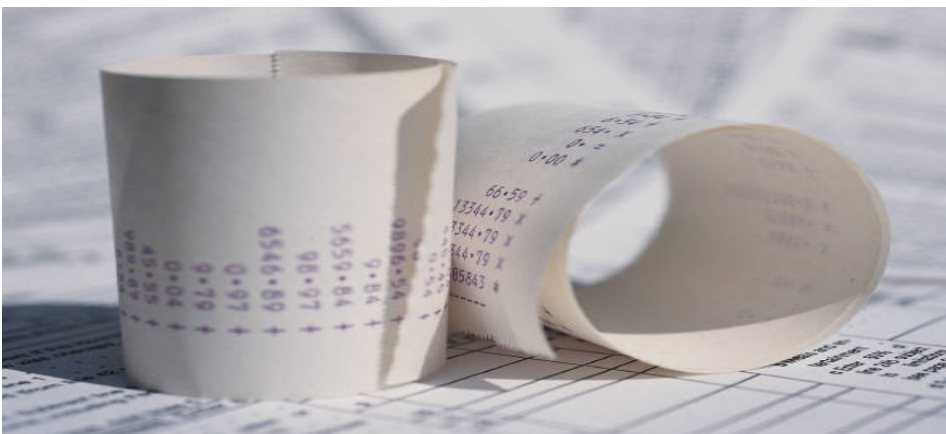
The Government has confirmed that previously legislated tax cuts will go ahead for the 2009/10 and 2010/11 financial years. No additional tax cuts were announced in this budget. Please refer to the table below for these figures.

Current		From 1 July 2009		From 1 July 2010	
Taxable Income	Rate	Taxable Income	Rate	Taxable Income	Rate
\$0-\$6,000	0%	\$0-\$6,000	0%	\$0-\$6,000	0%
\$6,001-\$34,000	15%	\$6,001-\$35,000	15%	\$6,001-\$37,000	15%
\$34,001-\$80,000	30%	\$35,001-\$80,000	30%	\$37,001-\$80,000	30%
\$80,001-\$180,000	40%	\$80,001-\$180,000	38%	\$80,001-\$180,000	37%
\$180,001 +	45%	\$180,001 +	45%	\$180,001 +	45%

Bonus capital allowance tax deduction

If you are considering purchasing assets for your business now could be the time to do so. With the economy slowing many manufacturers are giving incentives to purchase capital items prior to year end. In addition, the Government is giving small businesses a 50% bonus upfront tax deduction for items of capital that are purchased prior to December 2009. As the normal depreciation deductions apply over the life of the equipment.

If you would like to discuss this area or would like some assistance with setting up finance, structures or looking at cash flow effects of making capital purchases, please make an appointment. Don't forget that keeping receipts and maintaining a logbook apply for motor vehicle claims.



Fertile ground for Agribusiness

Investments in agribusiness provide positive opportunities to enhance a portfolio. The landscape for investment in the Australian farming and forestry sector continues to change significantly. Drought, climate change, and the global financial crisis have proved to be significant factors in the way we now view investment risk. Time horizons and comparative performance of these sectors is now being considered in its right context and asset classes such as equities, property and fixed interest are being compared over longer time frames.



Agriculture is perhaps the largest sector of farm production and is dominated by the meat and livestock industry, grain and oilseed production, cotton, dairy, forestry, horticulture and fisheries. Tax effective managed investment scheme (MIS) products have had a long history in the retail investment

landscape. The certainty, along with ATO rulings, greater emphasis on returns, investor protection and manager obligations is a positive for the industry. Investing in agriculture can be very tax effective but more importantly it can be a very good means of diversifying a portfolio and providing lump sums of income to supplement income in retirement, repaying mortgages or to simply plan for income in the future.

The sector has positive and negative stories and any clients wishing to discuss the pros and cons of an investment in this area may call our office prior to 30th June for a viewpoint on the relevance of using this tax effective investment strategy for your personal situation.

Interest Rates

A lot has been written in recent months about interest rates and the tightening policies of the banks. History shows us that interest rate reductions have had a positive effect on the economy, maintaining house prices and providing more disposable income for mortgagees.

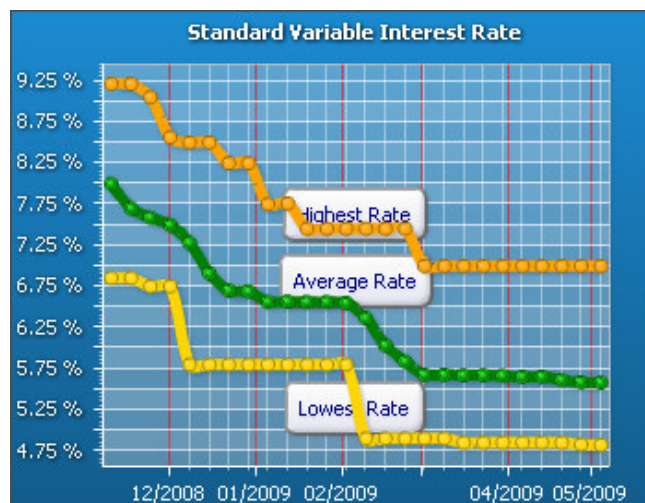
History has also shown that interest rates are cyclical and people tend to lock in fixed rates when rates go up and gravitate towards variable rates when they are low. This can be seen with many consumers complaining about the exit costs on their loans now that interest rates are well below their old fixed rates.

In today's market 90% of current home refinancing is reported to be on a variable interest rate with many of the banks offering short term incentives. Is now the time to consider locking in for a 3 year or even a 5 year rate?

As Accountants we are always asking the question, "What is the best long term result for our client?" We believe it is the time to question whether the 3 year fixed rate offer might be reaching the bottom of the scale.

At the time of writing this newsletter a 5 year rate for a home or investment property loan was varying between 6.3% and to as high as 8% depending on the bank of choice, whereas the three year fixed rate ranges from as low as 4.95% - 6.5% which is an indication that the banks think longer term rates are going higher. The lowest rate doesn't always mean the lowest repayment. In reviewing lenders it is important you look at the monthly fees, break costs and establishment fees to determine what the real cost of the loan is.

If you would like to discuss home, business, equipment or investment finance from a rate, tax or structure perspective do not hesitate to contact us.



The difference in cost to you between banks can be significant.