



June 2008 Client Newsletter

2008/09 FEDERAL BUDGET

Against a backdrop of economic uncertainty, rising interest rates, inflationary pressures and a volatile share market the Federal Treasurer Wayne Swan delivered a larger than expected \$21.7 billion budget surplus for 2008-09.

For the sixth consecutive year significant tax cuts were announced and the savings are summarized in the tables below. An individual taxpayer will need to earn over \$121,739 to pay an effective average rate of tax of more than 30% (including Medicare) in 2008/09. The Government also reaffirmed its commitment to reduce tax rates to three levels (15%, 30% and 40%) by 2013/14.

The Budget is not all handouts. The Government will claw back some revenue from higher income earners by 'means testing' a number of Government benefits including Family Tax Benefit and the Baby Bonus.

Budget Highlights

- **Tax Cuts worth \$46.7 billion over the next four years.** The tax cuts are aimed at low and middle-income families. Workers on \$50,000 per annum will get a tax cut of \$1,000 while workers earning less than \$14,000 per annum will pay no tax from 1 July 2008. The threshold for the 30% tax rate will rise from \$30,001 to \$34,001 and from 1 July 2008 the 40% tax threshold will increase from \$75,001 to \$80,001 with the 45% threshold rising from \$150,001 to \$180,001.

INCOME TAX THRESHOLDS

2007/08 Tax Thresholds	Tax Rate (%)	New Tax Thresholds from 1st July 2008	Tax Rate (%)	New Tax Thresholds from 1st July 2009	Tax Rate (%)
\$0 - \$6000	0	\$0 - \$6000	0	\$0 - \$6000	0
\$6001 - \$30,000	15	\$6001 - \$34,000	15	\$6001 - \$35,000	15
\$30,001 - \$75,000	30	\$34,001 - \$80,000	30	\$35,001 - \$80,000	30
\$75,001 - \$150,000	40	\$80,001 - \$180,000	40	\$80,001 - \$180,000	38
\$150,001 +	45	\$180,001 +	45	\$180,001 +	45

INCOME TAX SAVINGS

Taxable Income	2008/2009 Annual Saving	2009/2010 Annual Saving
\$35,000 - \$45,000	\$1050	\$1350
\$50,000	\$1000	\$1300
\$80,000	\$1100	\$1250
\$100,000	\$1100	\$1650
\$120,000	\$1100	\$2050
\$180,000 +	\$2600	\$4750

- **Baby Bonus:** This payment will be increased to \$5,000 from 1 July 2008 and indexed annually. It will now be paid in 13 fortnightly installments of around \$385, rather than a lump sum. Eligibility will be limited to families with 'adjusted taxable incomes' of \$75,000 or less in the six months after the birth of a baby (equivalent to an annual income of \$150,000) from 1 January 2009.
- **Child Care Rebate:** This will be increased from 30% to 50% which means that half of a family's total out-of-pocket child care costs will be met every year. The cap on the amount that can be paid each year will also be lifted from the current amount of \$4,354 to \$7,500 per child per year, paid quarterly. From 1 July 2008 this will now be means tested.
- **Education:** From 1 July 2008, families that are eligible to receive Family Tax Benefit Part A will be entitled to a refund of up to half of the cost of their children's education expenses. This will help the families of around 2.3 million school-age children meet education costs including computers, printers, text books, software and internet connections (but excluding school fees, uniforms and excursions). The maximum refund is \$375 per primary school student and \$750 for every secondary school student. All four year olds will now have access to pre-school for 15 hours per week by 2013.



In addition, the Government will provide \$1 Billion over 4 years to ensure all year 9-12 students have access to their own computer and provide an additional \$5.7 Billion over 5 years to fund a National Broadband Network.

- **Superannuation:** The Government re-iterated its policy to preserve the tax-free nature of superannuation payments to those over 60. It will now also include non-wage remuneration such as salary sacrifice superannuation, in income tests for a range of Government financial assistance programs.

Budget Highlights (Cont'd)

- **Senior Australians:** From 1 July 2008, senior Australians eligible for the senior Australians tax offset will pay no tax on their annual income up to \$28,867 for singles and \$24,680 for each member of a couple. By 1 July 2010, these thresholds will rise to \$30,685 for singles and \$26,680 for each member of a couple.
- **Medicare Levy:** More than one million Australians will save up to \$1,500 as the Government plans to change the threshold where a one per cent Medicare levy kicks in. Singles would be able to earn up to \$100,000 while couples would be able to earn up to \$150,000 before the one per cent surcharge applies. The low income thresholds for Medicare have also been increased to \$17,309 for individuals and \$29,207 for individuals in families.



Small Business

- **Luxury Car Tax:** The rate has increased from 25% to 33% with effect from July 1 2008 and the threshold increases from \$57,123 to \$57,180 which represents an increase of \$2,000-\$2,600 on popular luxury vehicles.
- **Fringe Benefits Tax:** The broad based FBT exemption for laptops and similar items is being restricted. Such items provided by employers will now be required to be used 'primarily for work purposes' for the FBT exemption to apply. Meals consumed on premises by an employee under a salary sacrifice arrangement will now be subject to FBT.
- **Depreciation On In-House Software:** The write off period will increase from 2.5 years to 4 years (on a straight line basis) for expenditures incurred after 7.30pm on 13 May 2008 (reduces the depreciation rate from 40% to 25%).
- **GST Concessions:** Access to the small business CGT concessions via the small business entity rules (i.e. \$2m turnover) will be extended from 1 July 2007 to cover associated entities. The extension applies to entities that hold assets which are used by a small business entity, e.g. will cover a trust that owns property which is rented to an associated company for use in its business.

Bought a 'Luxury' Car Lately?

Tax investigators are about to pounce on drivers of luxury cars who declare little or no income in their tax returns. The investigation will focus on luxury vehicle purchases in the last two financial years and details of 290,000 separate vehicle transactions will be reviewed. In a major operation the Tax Office said it would collect data on the sales of new and second-hand vehicles costing more than \$57,009 between 1 July 2005 and 30 June 2007.

The Tax Office will use data collected from state and territory motor vehicle registries and cross match it against taxpayer records. The project would involve about 600,000 people nationally as it will also target people who have purchased other luxury items such as planes, race horses and boats.

The investigation will target people who declare little income, but whose acquisition of assets would indicate "conspicuous wealth". A Tax Office statement said, "In this instance, the indication of conspicuous wealth is the purchase or acquisition of a motor vehicle with a sale price or valuation in excess of the luxury car tax limit".

The move by the ATO is also expected to flush out anyone who has not lodged tax returns and they will also target people who try to conceal their ownership of expensive cars — for example, by registering them in the names of other people. It is unclear how many individuals will be investigated, or how many prosecutions are expected but a previous 'pilot' investigation revealed nearly 25% of taxpayers targeted had at least one outstanding tax return between 1997 and 2005. "Early indications are that the risk of omitted income in identified cases is substantial," it said.

The Federal Chamber of Automotive Industries says about 100,000 luxury vehicles were sold last year. About 70% of these were priced between \$57,000 and \$85,000, a range that includes high-end 'people movers' such as the Volkswagen Multivan and more expensive versions of the Holden Commodore and Ford Falcon.

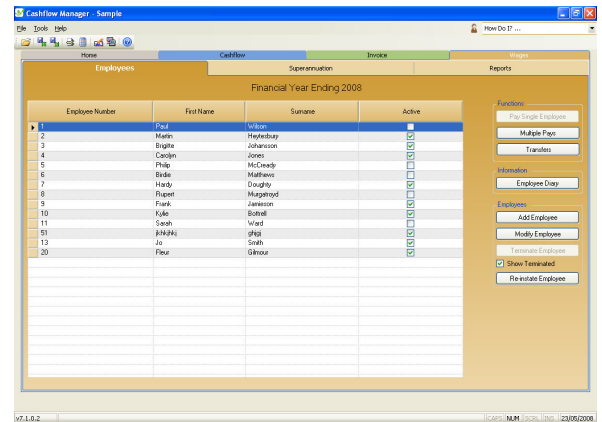


Payroll Software

If you are considering computerising your payroll we strongly recommend the program **'Wages Manager'**. Apart from its simplicity, Wages Manager also generates a number of key Reports at the click of a button including:

- The Annual PAYG Payment Summaries (Group Certificates)
- The key figures to appear at W1 & W2 on your BAS
- Superannuation Calculation and Payment Reports

If you would like more information or a demonstration copy of Wages Manager call our office today.



Software Options for Business Owners

Despite the fact that the GST tax system is now 8 years old, many small business owners continue to struggle to cope with their GST and BAS obligations.

Software selection is a critical business decision and to assist you we provide the following guidelines:

- Don't buy software beyond your business needs. If you don't require a fully integrated general ledger system or inventory, then don't buy a sophisticated accounting program.
- If you don't understand double entry accounting (debits, credits or journal entries) then avoid those accounting programs and consider a single entry bookkeeping program.
- If your business requires a double entry accounting system then you should undergo a training course at a local TAFE or college. The duration of these courses is usually 12-16 hours.
- Ideally your software should be compatible with our systems to allow electronic transfer of your data, which can save time, money and assist with meeting lodgement deadlines.

If you simply need a bookkeeping program we strongly recommend **'Cashflow Manager'**. This program looks and operates just like a manual cashbook and requires no understanding of accounting debits and credits.

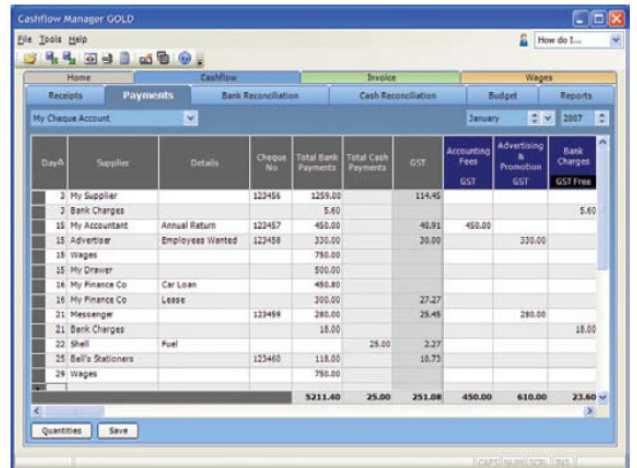
The program also includes Customer Invoicing & Debtors that lets you produce invoices, control your debtors and print a number of reports including Customer Statements.

Add-on modules for Payroll, Creditors and Inventory Tracking are also available.

At less than \$250 this package represents excellent value for money and requires minimal (if any) training. The program is not available at a retail level and is sold almost exclusively through accounting firms.

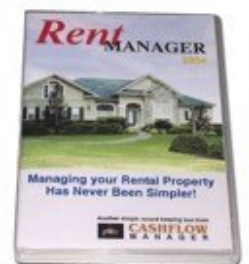
Free demonstration CD's are available from our office.

We urge you to consult us regarding your choice of software because the wrong decision can defeat the whole purpose of computerising your record keeping - saving time and money.



Own a Rental Property?

The ATO is increasing its audit activity on rental property owners. The focus is on a number of areas including the distinction between a repair and renovation, claiming deductions for a property that is not genuinely available for rent and apportioning costs where the property is only rented for part of a year.



They also have an ongoing 'data matching project' that is systematically checking property sales in every state since 1 July, 1999. The data will be checked against the ATO's Capital Gains, GST and Income Tax Records.

We recommend Rent Manager to clients because it lets you record all your rental income, expenses and cost base information. The property analysis section will also let you prepare a 10 year cashflow forecast plus taxable income and equity projections.

Car Expenses—Rates Per Kilometre for 2007/08

The cents per kilometre rates for car expenses for the year ending 30th June, 2008 are listed below. These rates are applicable to claims where the vehicle has travelled a maximum of 5,000 business kilometres during the financial year.

These rates are also used to calculate the taxable value of certain fringe benefits which were provided during the FBT year ending 31 March, 2008.

The motor vehicle cost depreciation limit for 2007/08 remains at \$57,123 (\$57,180 in 2008/09).



Car Size	Rate
Small Car (non-rotary engine not exceeding 1600cc, or rotary engine not exceeding 800cc)	58c per km
Medium Car (non-rotary engine 1601cc – 2600cc, or rotary engine 801cc – 1300cc)	69c per km
Large Car (non-rotary engine 2601cc and above, or rotary engine 1301cc and above)	70c per km

Thank You

For referring your friends and colleagues to us.

The finest compliment we can receive is a referral from our clients.

2008 Financial Year End Tax Planning

Some tax planning issues that can be addressed prior to the end of the financial year include:

- Recognition of Incurred/Accrued Expenditure
- Write Off of Bad Debts (review debtors at 30 June 2008, to determine recoverability)
- Prepayments (NB: Rules apply to restrict deductibility in some instances)
- Capital Asset Sales (review of potential to incur capital losses prior to year end, to offset capital gains derived during the financial year)
- Superannuation Contributions (pay before June 30)
- Salary Packaging (NB: Salary Sacrifice arrangements must be effected prior to revising employee/director remuneration)
- Trading Stock revaluation

If you require further clarification as to the tax implications of your activities for the year ended 30 June 2008, we suggest that you contact our office immediately.

June 2008						
Mon	Tue	Wed	Thu	Fri	Sat	Sun
26	27	28	29	30	31	1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23	24	25	26	27	28	29
30	1	2	3	4	5	6

The Tax Man Is Coming

The Australian Tax Office auditors will again focus on a broad range of occupations and industries. Targets include tourism workers, travel consultants and guides plus the fitness and sporting industry, construction workers, security personnel and mine workers.

Owner builders are the latest target of the Tax Office's data matching crackdown. The ATO said it would match Victoria's Building Commission and NSW Fair Trading records on 75,000 owner builders against data collected from other sources to catch tax cheats.

In addition, the ATO aim to conduct more than 15,000 audits this year and have 1200 wealthy individuals in their sights. Individuals controlling more than \$30m will be the subject of additional ATO scrutiny. Last year the returns of 210 high-wealth individuals were reviewed resulting in 22 full blown audits. The activity raised an extra \$224M, an average of just over \$1m per person.

The ATO's Self Managed Superannuation Fund 2008 Compliance Program will be expanded to cover 2.9% of the total SMSF's which represents an additional 6,600 audits compared to last year.

Self Managed Super Funds

Do-it-yourself Superannuation via a Self Managed Superannuation Fund (SMSF) is an increasingly popular choice for investors. Latest research suggests there are now more than 360,000 SMSF's in Australia.

The three key reasons for establishing your own SMSF are control, flexibility and investment choice. There are obvious benefits in establishing a SMSF but running your own fund is complex and there are many other considerations including your investment strategy, the administration of your fund and compliance with superannuation and other laws.

A SMSF is basically a superannuation fund with one to four members who are also trustees responsible for the investment strategy

and administration of the fund within strict Australian Tax Office guidelines.

In assessing whether an SMSF is suitable for you we prompt the following questions:

- Do you have a substantial amount in personal superannuation? (As a guide, a minimum of \$220,000 would be required due to establishment costs and ongoing management and audit fees.)
- Do you enjoy learning about your investments and have the time to regularly review their performance?
- Would you like increased flexibility in estate planning, more investment options and greater responsibility for your own retirement funds?

If you answered 'yes' to these questions, you may be suited to having your own SMSF.

Whilst there are potentially great benefits, having a Self Managed Super Fund requires time, effort and discipline plus they also attract extra ongoing fees including annual audit fees.

Call our office to discuss your superannuation options including establishment of your own SMSF.



SMSF Statistics

- The growth in SMSFs has been phenomenal over the past decade and by July 2007 more than 690,000 Australians were members of a SMSF.
- On average, each SMSF holds around \$800,000.
- 47,000 funds were established in the past year.
- The total assets in SMSF have increased sevenfold in the last ten years.

What happened in May?

With all the tax and budget information, the newsletter's been pretty heavy. So let's add some light relief and some trivia for your next Quiz night.

This Year: (13/5/08): Rudd Labour Government's first budget

10 Years Ago (14/5/98): Last episode of Seinfeld on NBC America

55 Years Ago (29/5/53): Edmund Hillary and Tensing Norkay are 1st to reach summit of Mt Everest

60 Years Ago (14/5/48): State of Israel established with PM David Ben-Gurion

80 Years Ago (15/4/28): Mickey Mouse made his first appearance

100 Years Ago (10/5/1908): 1st Mothers Day observed (Philadelphia)

120 Years Ago (7/5/1888): George Eastman patents "Kodak box camera"

125 Years Ago: (1/5/1883): Buffalo Bill Cody put on his first Wild West Show

175 Years Ago (5/5/1833): John Deere makes first steel plough

290 Years Ago (15/5/1718): James Puckle, a London Lawyer, patents world's first machine gun.

In kindergarten, the teacher asked Johnny if he knew his numbers. "Yes, my dad taught me," he said proudly. "Good. What comes after three?" "Four," the boy replied. "What comes after six?" "Seven" "Your dad did a great job. And what comes after ten?" "A jack" said little Johnny.