



Spring 2007

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Chartered Accountants

BDH & CO
Suite 1, Level 3
3 Carlingford Road
Epping NSW 2121
AUSTRALIA

Tel: (02) 9869 3300
Fax: (02) 9869 3200

www.bdhco.com.au

Partners: Gede Barone
Tas Demos
Brad Hodge

Key super changes

Below is an outline of how key super changes will affect different sectors within the community.

Employees

- As of 1 July 2007 self-employed people may be able to claim a full tax deduction for their personal superannuation contributions.

Individuals currently working

- As of 1 July 2007 making before-tax contributions of up to \$50,000 a year (indexed) into super accounts is allowed.
- If 50 years or over, the before-tax contributions limit is \$100,000 a year between 2007-2008 and 2011-12.

People over 55 years of age

- For people over 55 years of age, there is now an opportunity to increase disposable income using Transitional Pensions and Salary Sacrifice into superannuation funds.

People over 60 years of age

- For people over 60 ALL pensions will be tax free when they are received.
- Once a superannuation fund is in its pension phase all income and capital growth is tax free inside the fund as well.
- It is not too late to convert retirement savings and investments into superannuation.

Checklist of superannuation obligations for employers

If you are an employer you may be aware that as part of the Government's *Tax Laws Amendments (Simplified Superannuation) Act 2007* (Cwlth) there are some changes which affect your obligations as an employer.

Below is a summary of your key obligations in order to comply with the legislation.

Pay 9 per cent superannuation for all eligible employees

- If you have employees and/or contractors or if you pay directors fees you have an obligation to make Superannuation Guarantee contributions at the rate of 9 per cent of ordinary time earnings.

Pay superannuation contributions quarterly

- These contributions MUST be made at least quarterly by the 28th of the month following the end of the quarter. These dates are 28 October, 28 January, 28 April and 28 July.
- If contributions are NOT received by the superannuation fund by these dates you must pay the Superannuation Guarantee Charge as a non-deductible charge to the ATO along with interest and administration fees. Superannuation funds may not accept employer payments which are made after the due date.

Ensure salary sacrifice arrangements comply with requirements

- Do you have employees who are salary sacrificing wages and salary for their superannuation contributions? Ensure you have an employment agreement in place before the salary is sacrificed to comply with the Fringe Benefits Tax exempt status.

Offer choice of superannuation fund to employees

- Since 1 July 2005 most employees have been able to choose where you pay their superannuation contributions. There were a few exceptions where employees were covered under state awards however since 1 July 2006 these employees have also been able to choose.
- Employers must give all employees a 'Standard Choice Form' which employees can complete if they wish to choose a different fund from the employers default fund. Employers should nominate a default fund where they will pay employee contributions if the employee has not notified them of their choice of fund.
- Penalties for non-compliance with superannuation choice legislation are reportable on the Superannuation Guarantee Charge Statement –Quarterly.
- A useful website for more information is www.superchoice.gov.au

Notify superannuation funds of your employees' tax file numbers

- Employers are now responsible for passing on their employees' TFN's to their nominated

superannuation fund when they make the first contribution after July 2007. The superannuation funds will use these to pass member contribution information to the ATO annually. The ATO has reported that they have 80% of TFN's supplied already, have matched 12% from their records, but are chasing the last 8%. If an employee's TFN has not been provided their contributions will be taxed at the top marginal rate of 46.5 per cent.

ATO audit targets

The Tax Office have announced that they are stepping up audit activity and the main areas to be targeted are listed below:-

1. Income matching audits

Every year the Tax Office conducts computerised cross matching of taxpayers tax returns to ensure income earned has been included in tax returns.

The income information is cross matched with banks, Centrelink, company share registers, state titles offices and employers PAYG payment summaries (group certificates).

2. Rental property owners

The Tax Office are looking at rental property owners' tax returns this tax year with a particular emphasis on claims for repairs, interest, borrowing expenses, depreciation and capital allowances. The common errors they have found include:

- Claiming initial improvements to the property as repairs.
- Claiming expenses where a property is not available for rent.
- Deductions not being apportioned when

non-commercial rents are being charged to relatives or friends.

- Estimating the construction costs of buildings rather than relying on cost estimates provided by quantity surveyors.
- Interest being claimed on loans that are partly or wholly for private use.

3. Not declaring capital gains on disposal of shares or property

The Tax Office continues to compare lodged tax returns with share trading and rental property sales data. The ATO obtains this information from share registries and state titles offices.

Furthermore the Tax Office will be paying particular focus to the following occupations for work-related expenses:

- Tourism, travel consultants and tour guides
- Fitness and sporting industry employees
- Construction tradespeople who are employees
- Guards and security employees, and
- Mining site employees.

According to Tax Commissioner Mr D'Ascenzo "In particular, we'll be looking for capital gains from assets sold to contribute to superannuation before the new super changes came into affect on 1 July."

Providing original documentation for the preparation of your tax return can ensure accuracy.

Low income rebate

From 1 July 2007 the low income tax offset increased to \$750 per year and the 30 per cent threshold rose from \$25,000 to \$30,000.

GST

Since 1 July 2007, businesses with a turnover below \$75,000 need not register for GST.

Are you in the right structure?

With the recent reductions in tax rates and the low income tax offsets, now is the time to review your current business structure. A table of the new individual tax rates is below.

2006/07 Taxable Income	Tax Rate
\$0 – \$6,000	0%
\$6,001 – \$25,000	15%
\$25,001 – \$75,000	30%
\$75,001 – \$150,000	40%
\$150,001 +	45%

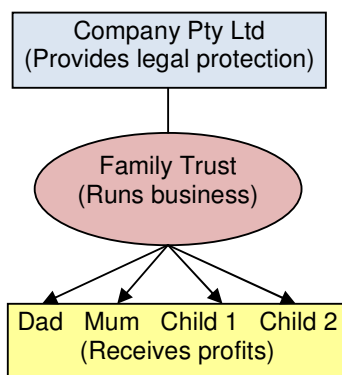
Plus Medicare Levy 1.5%

The current trend in business structuring is to set up a family trust with a corporate trustee.

The corporate trustee (a company) provides legal protection over personal assets from business creditors and the family trust provides maximum flexibility in distributing profits. Additionally, children under 18 can now also receive \$1,333 each tax free, effectively saving an average of \$400 tax per child. Also, with some careful planning WorkCover liabilities can be reduced.

As can be seen from the above tax table, individuals can have a taxable income of \$75,000 before paying more tax than the company tax rate of 30 per cent - more business profits can now be paid to individuals before a company structure provides a better taxation solution.

Below is a diagrammatical view of a company/trust structure.



As each family and business is different, there is no one right structure for everyone. Talk to your Chartered Accountant to discuss all your options.

Compulsory payslips & other records

All employers covered by the new Federal Work Choices Legislation are required to issue written payslips to employees. This came into effect as of March 27 2007.

Payslips must include:

- The date and the period of payment
- The gross, tax and net amounts of payment
- Any deductions made
- Any allowances, bonuses, etc
- For employees paid an hourly rate - require the ordinary hourly rate of pay and number of hours worked
- Any overtime or penalty rates paid (e.g. weekend work), or loadings (e.g. shift work)
- The amount of each superannuation contribution the employer makes or is liable to make during the period to which the pay slip relates

- The name of the superannuation fund.

Additionally an annual leave register and a personal leave register must be kept. A list of details required on payslips can be found on the following website:

<https://www.workchoices.gov.au/ourplan/publications/WorkChoiceSandtimeandwagerecords.htm>

Getting finance from banks

If you seek finance from a bank consider the checklist below to give yourself the best chance of success:

- Prepare a brief but comprehensive business plan outlining the growth strategy and how you plan to get there. Include calculations about required investments and the expected return.
- Take copies of up-to-date tax returns, financial statements, a list of contracts and important customers.
- Sell the competence, experience of your business and its management.
- Discuss industry specific risks and economic factors.
- Consider alternative forms of finance, secure leasing for equipment.

Do you hold effective meetings?

When not handled properly meetings are a waste of time. Consider the points below in order to have more effective meetings.

- Link the meeting to specific outcomes.

- Schedule meetings off the hour (e.g. 10.10am), as it lets the attendees know you are getting straight down to business.
- Start talking about the first agenda item, don't stop for latecomers or backtrack for them.
- At the end of the meeting, declare it closed and stand up.

Do your backups work?

There are all too many 'horror' stories of when backups have failed in business costing them hundreds, if not thousands of dollars.

In one case there was a business that was the largest supplier in its industry with some 17,000 customers. The nature of their business meant that they were required to hold vast amounts of data of a sensitive nature for their customers.

One day, they needed to restore a file. They couldn't. The immediate next step was to go to the previous backup. Same result. "OK, let's try last week". Still no good.

They soon discovered that for 18 months, they had not had a successful backup. If there had been a flood or fire, they almost certainly would have lost their business. It was a time bomb waiting to go off.

Businesses everywhere that have computers do the right thing (they think) by buying good equipment along with the trusty tape backup unit. They even get someone reliable to install it. But businesses often forget to check and prove those backups work.

The following six checkpoints can ensure that your backup regime is up to scratch and help avert a potential disaster.

Backups health checklist

1/ Have more than one tape.

2/ Use the backup rotation system:

- 4 Daily backups labelled Mon-Thu
- 4 Friday backups labelled F1-F4
- 3 Monthly backups M1-M3
- 2 Annual Backups (alternated every 31 Dec or Jun 30)

3/ Check the backup logs daily. Did last night's backup finish or skip any essential files? Test the backup. Try to restore a file from each tape twice a year.

4/ Clean the backup unit every 6 months.

5/ Keep the tapes off-site. (Oldest weekly, Monthly, Annual or whatever you can least afford to lose in the event of theft or fire.)

6/ Ensure that the backup procedures are documented and at least two to three responsible staff in the office know how to use them.

An IT consultant can schedule an office visit to ensure that the correct backup regime is in place and that the above procedures are followed. Using the checklist could save your business. Most Chartered Accountants can put you in touch with a reliable IT provider.

Improving your cash flow

A healthy cash flow is essential to a successful business. Below are some ways to improve your cash flow.

Prepare a cash flow budget

- This should be a month by month annual budget
- Regularly review actual to budgeted cash flows

Review your receivables collection policy

- Send bills out quickly
- Bank money promptly or use EFT
- Follow up overdue accounts, as delays decrease the likelihood of being paid fully

Ensure your products/services are priced correctly

- Ensure you have priced your products so that they are profitable, taking into account all the products costs, distribution costs and fixed overheads
- Review your price regularly and adjust as necessary

Increase your number of customers

- Identify who your target markets are, review the value of their purchases, scope out if you can you 'on-sell' other products to them
- Identify who else could want your products/services, list every possibility and put a dollar figure on each

Introduce Just-in-time inventory

- Purchase/hold only the inventory you need

Capital Purchases

- Ensure you have the right financing in place, eg hire purchase, finance lease, rental lease or chattel mortgage. Do not use your cash to buy large assets.

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