

### Contents

- 1 > 2008/09 Personal tax changes
  - > End of year tax planning
  - > 2008/09 Budget changes
- 2 > Fuel tax credits
  - > Government superannuation co-contributions
- 3 > Maximum deductible super contributions for 2007/08
  - > Superannuation – life insurance
  - > Corporate insolvency
  - > Improving cash flow
- 4 > Obsolete stock
  - > Establishing trees in carbon sink forests
  - > Strategic management – Dell Computer Corporation
- 5 > Do you have a self managed superannuation fund “SMSF”
- 6 > Changes to 9% Superannuation Guarantee.



**Chartered Accountants**

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

Partners: *Gede Barone*  
*Tas Demos*  
*Brad Hodge*

Tel: (02) 9869 3300  
Fax: (02) 9869 3200  
www.bdhco.com.au

# Client Information Bulletin

## 2008/09 Personal tax changes

Once again the new financial year brings welcome tax cuts. The new tax rates starting 1 July 2008 are in the table below.

2008/09 Taxable Income	Tax Rate
\$0 – \$6,000	0%
\$6,001 – \$34,000	15%
\$34,001 – \$80,000	30%
\$80,001 – \$180,000	40%
\$180,001 +	45%

Plus Medicare Levy of 1.5 per cent

Please ensure that you incorporate these changes when calculating wages. If you have a computerised payroll system you will need to download the latest tax updates from your supplier on 1 July 2008.

## End of year tax planning

Given the lower tax rates applying from 1 July 2008, it would be prudent to reduce your taxable income this year through careful tax planning. For this reason it is recommended that you consider deferring income (where possible) and bringing forward tax deductible expenditure.

In particular, business clients should consider adopting the following tax planning strategies:

- Prepay expenses if you are considering using the simplified tax system (STS)

- Pay outstanding accounts by 30 June 2008 if you are considering using the STS
- Defer the receipt of income until after 30 June 2008 where appropriate
- Consider paying a ‘spouse superannuation contribution’ of \$3,000 to a low income spouse to gain a rebate of \$540
- Consider investing in Tax Office approved Managed Investment Schemes
- Crystallise capital losses if you have derived any capital gains this year
- Consider paying additional personal superannuation contributions within the age based limits
- Purchase plant and equipment costing less than \$1,000 to claim a deduction this year if you are using the STS.

Talk to your Chartered Accountant in order to put together the right end of year tax strategy for you and your business.

## 2008/09 Budget changes

Here is a brief summary of changes announced in the Federal Government 2008/09 Budget.

- The personal income tax brackets are set to increase annually over the next four years with the Government

announcing it anticipates having only three tax rates by 2013-14 (15 per cent, 30 per cent and 40 per cent)

- The Medicare levy surcharge thresholds will change effective 1 July 2008. Singles can now earn \$100,000, and families \$150,000 before the surcharge applies
  - The child care tax rebate has increased from 30 per cent to 50 per cent for out of pocket child care expenses up to \$7,500 per child to be paid quarterly
  - The low income tax offset will increase from \$750 to \$1,200 effectively increasing the tax free threshold for low income earners to \$14,000
  - An Education Tax Refund (ETR) has been introduced where the Government will provide eligible parents with a 50 per cent ETR from 1 July 2008.
- Eligible parents can claim up to:
- \$750 for each child attending primary school, giving a refund of up to \$375 per child, per year
  - \$1,500 for each child attending secondary school, giving a refund of up to \$750 per child, per year.
- A First Home Saver account has been introduced which will provide a simple, tax effective way to save for a first home through a combination of Government contributions and low taxes

- The Senior Australian Tax Offset, the amount of income a senior Australian eligible for the Senior Australian Tax Offset (SATO) can earn before they incur a tax liability, will increase to \$28,867 for singles and \$24,680 each for a couple in 2008/09
- The Government has announced it will means test a range of payments including child care benefits, family tax benefits, baby bonus, as well as eligibility for dependency tax offsets. The entrepreneur tax offset will also have an income test
- The Government will lift the tax rate on luxury cars from 25 per cent to 33 per cent from 1 July 2008 with the threshold remaining at \$57,123
- Fringe benefits tax changes affect the exempt status of laptops, personal digital assistants and tools of trade used mainly for private purposes. Salary sacrificed meals provided to employees are no longer FBT exempt
- The Government will also increase the period over which capital expenditure on in-house computer software is depreciated from 2.5 years to 4 years for expenditure incurred on or after budget night (7.30pm 13 May 2008)
- There are also changes to employee share schemes, the treatment of capital protected borrowings and family trust elections.

For more details regarding budget changes and how they might affect you, talk to your Chartered Accountant.

## Fuel tax credits

The current Fuel Tax Credits system will be expanded from 1 July 2008.

Other eligible people to claim fuel tax credits will include medical services and nurses, particularly in the rural area who travel to attend to patients.

Also from 1 July 2008 petrol will be eligible for credit, as well as a 50 per cent credit for fuel used in new activities, tools, machinery or equipment not previously eligible including cleaning equipment, bobcats, backhoes, chainsaws, etc.

There is a need to register for the fuel tax to enable you to claim for your credits and we recommend that you contact your Chartered Accountant so that a registration can be set up for you.

## Government superannuation co-contributions

If you are an employee or self employed taxpayer who earns less than \$58,000 a year and you make a member's personal superannuation contribution you may be eligible for the Government's super co-contribution.

For each \$1 contributed the Government will contribute up to an additional \$1.50 (up to a maximum of \$1,500 a year). This is a Government backed return of up to 150 per cent on your money invested; however you need to ensure that your superannuation fund receives the money prior to 30 June 2008 in order to be eligible this financial year.

The actual co-contribution you will receive is shown below.

#### Your Government Super Co-Contribution (Table 1)

Your Super Contribution	\$1,000	\$800
And your income is:	Government Super Co-contribution:	
\$28,000 or less	\$1,500	\$1,200
\$30,000	\$1,400	\$1,200
\$34,000	\$1,200	\$1,200
\$38,000	\$1,000	\$1,000
\$42,000	\$800	\$800
\$46,000	\$600	\$600
\$50,000	\$400	\$400
\$54,000	\$200	\$200
\$58,000+	\$0	\$0

#### Your Government Super Co-Contribution (Table 2)

Your Super Contribution	\$500	\$200
And your income is:	Government Super Co-contribution:	
\$28,000 or less	\$750	\$300
\$30,000	\$750	\$300
\$34,000	\$750	\$300
\$38,000	\$750	\$300
\$42,000	\$750	\$300
\$46,000	\$600	\$300
\$50,000	\$400	\$300
\$54,000	\$200	\$200
\$58,000+	\$0	\$0

## Maximum deductible super contributions for 2007/08

Since 1 July 2007 the maximum deductible contribution has been limited to \$50,000 per year, unless you are 50 or turning 50 between 2007 and 2012 where the maximum is \$100,000.

It is important to remember that the contributions must be received by the Superannuation Fund by 30 June 2008 to be deductible this year.

## Superannuation – life insurance

This is a reminder to all employers that they have 14 days from when an employee completes the Australian Taxation Office Employment Declaration Form, to notify their choice of Superannuation Fund of the employee's tax file number.

The form does have a box that you are required to tick advising that you, as the employer, have attended to this requirement.

Also employers have a requirement to nominate a default Superannuation Fund and from 1 July 2008 that default fund must offer minimum life insurance for its members.

Many self managed superannuation funds (SMSFs) do not have life insurance for their members and therefore will need to meet this requirement.

We recommend that you contact your Chartered Accountant to discuss this requirement.

## Corporate insolvency

Changes have been made to the *Corporations Act 2001* (Cwlth) where employees of failed companies will have a better chance of getting their unpaid superannuation contribution entitlements back.

Superannuation entitlements now rank equally with wages and unpaid leave in an insolvency.

To ensure your interests are best looked after please contact your Chartered Accountant so that the correct proof of debt in an insolvency is submitted.

## Improving cash flow

The economic conditions of the past few years are changing.

Many small businesses are now noticing cash flow is harder to maintain as invoices are taking longer to be paid.

To improve cash flow, the following strategies are recommended:

1. Set clear terms of trade and instead of 'pay 14 days', set a particular due date. For example 17 May 2008. (Telstra invoices implement this strategy)
2. Check the credit of new customers with debt collection agencies, including customer information and legal structure

3. Get to know the person in your customer's accounts payable department and develop a relationship where you may obtain preferential payment
4. Hand deliver invoices if possible to ensure they get into the accounts payable system, and not 'lost in the mail'
5. Set credit limits and stick to them
6. Follow up with phone calls rather than sending statements or additional copies of your invoices in the mail.

- The length of time since the last sale
- No prospect of future sales of the stock.

A review of obsolete stock is recommended prior to 30 June 2008.

Contact your Chartered Accountant to discuss stock obsolescence and possible tax savings in more detail.

## Establishing trees in carbon sink forests

The Tax Laws Amendment (2008 Measures No.1) Bill 2008 provides a deduction for capital expenditure on trees established in carbon sink forests. This measure was previously contained in the Tax Laws Amendment (2007 Measures No.6) Bill 2007 which lapsed in October 2007, when the federal election was called.

Expenditure incurred on establishing trees in a carbon sink forest will be immediately deductible in the period 2007/08 to 2011/12. After this initial period, establishment costs will be deductible over 14 years and 105 days at a rate of seven per cent per annum.

To be eligible, the taxpayer must be carrying on a business and the carbon sink forest must meet Environmental and Natural Resource Management Guidelines.

## Obsolete stock

Most businesses which have stock or inventory will be required to value this asset at the end of the financial year. The value is generally at cost.

To ensure a correct valuation is obtained incorporating only stock that is saleable, it is recommended all obsolete stock be identified and that such stock be written down in value accordingly. This stock write down will result in a **reduction** of tax payable.

Characteristics of obsolete stock are:

- Going out of use
- Going out of date
- Becoming unfashionable
- Becoming outmoded
- The age of the stock
- The excess quantity of stock on hand

## Strategic management – Dell Computer Corporation

In 1984, at the age of 19, Michael Dell founded Dell Computer with a simple vision and business concept – that personal computers could be built to order and sold direct to customers.

This strategy provided two advantages:

1. It bypassed distributors and retailers, eliminating reseller mark-ups
2. It meant they built computers to order, significantly reducing the costs and risks involved in carrying large stock.

Since 2000 Dell Computer has been the world wide market leader for PC sales.

As evident from the Dell example, setting strategic management and marketing objectives can provide the framework to become a highly profitable business.

Contact your Chartered Accountant to investigate strategies to follow in order to improve your business' profitability.

## Do you have a self managed Superannuation Fund "SMSF?"

Over the recent years there has been a significant growth in the number of SMSF's set up by people wanting to

manage their own superannuation. Several years ago the regulation of SMSF's were transferred over to the ATO and there are significant penalties imposed on trustees for non-compliance. The penalties range from removal of the tax concessions given to SMSF's, fines and possible jail terms for trustees.

It is therefore important that all trustees know their obligations. The ATO has often listed common breaches that are found by SMSF's. These include:-

- **Not having investments in the correct name.** All investments, including shares, bank accounts and managed funds should be in the name of the trustee and noted that it is held in trust for the superannuation fund. Investments in residential or commercial property should have a declaration of trust in place.
- **A charge on an asset held by the SMSF.** Assets owned by an SMSF must be unencumbered without a mortgage or charge.
- **Borrowings by SMSF's.** There are only limited circumstances where a borrowing is permitted by an SMSF.
- **Investments in related parties.** Generally these are limited to 5% of the value of the fund and must be on an arms' length basis. Certain investments cannot be

purchased from parties related to members of the fund.

- **Not keeping records or no investment strategy.**

Trustees are required to keep records relating to the SMSF for 10 years. These records include minutes of trustees meetings, an investment strategy and other relevant records.

- **Early release of super.**

Superannuation benefits can only be paid where the member has satisfied a condition of release. This generally is when they have retired and attained a certain age or meets the conditions for hardship.

Also from 1 July 2007 all new trustees must sign a trustee declaration form within 21 days of becoming a trustee. Any changes to trustees must be notified to the ATO within 28 days of the change.

*The onus on auditors to detect such breaches has also increased leading to increased scope in our audit work.*

As auditors of an SMSF there are obligations to report to trustees and the ATO any contraventions that have or may impact on the members interests in a fund. For SMSF's set up from 1 July 2007 any contravention in the first year must be reported to the ATO.

If you have any questions in relation to your SMSF please contact Gede Barone.

## Changes to 9% Superannuation Guarantee

From 1 July 2008, the definition of ordinary time earnings will apply to all employer contributions in the calculation of the 9% contribution level.

## Ordinary time earnings

Ordinary time earnings (OTE) are generally defined as what an employee earns for ordinary hours of work including:

- over-award payments;
- shift loading;
- allowances;
- commissions.

It excludes things which do not have a link to ordinary hours of work such as overtime and discretionary bonuses.

Most employees have OTE as their earnings base for the purpose of calculating superannuation contributions. However some employees have other earnings bases that may be contained in:

- an industrial award;

- an existing agreement they have with their employer;
- a fund's trust deed; or
- Commonwealth, State or Territory law.

In the past an employee may have been paid lower super contributions (as a proportion of total remuneration) when compared with another employee in similar circumstances, with a different employer. However, from 1 July 2008, the earning base is standardized to OTE for all employees under the *Superannuation Guarantee (Administration) Act 1992*. As a result, all employers are required to use a national earnings base which is at least equivalent to OTE.

## What needs to be done?

- review the earnings base for all employees to ensure that you are calculating their contributions based on OTE.
- update your software and payroll systems to reflect changes from 1 July 2008.
- implement a strategy to inform your employees of possible changes to their superannuation contributions.

If you are currently using a different earnings base which would result in paying super

guarantee of less than 9% of OTE, you will need to increase this amount to meet the minimum requirements and avoid the super guarantee charge.

## Example

Motor vehicle company XYZ has been paying super contributions under an award for its employees. The award states that commission for sales people is excluded from OTE as defined in the relevant award.

From July 2008, motor vehicle company XYZ includes commissions for its salespeople when working out super guarantee contributions.

(Source: ATO)

## More information

For more on the definition of OTE, refer to Tax Ruling 94/4 which can be found on the ATO website.

**DISCLAIMER: The contents of this publication are general in nature and we accept no responsibility for persons acting on information contained herein.**