R W Fox & Associates
Chartered Accountants

Client Information Bulletin

Winter 2001

Inside this Issue

1 Marshall Way
NAMBUCCA HEADS 2448
PO Box 128 MACKSVILLE 2447
Phone (02) 6568 9788
FAX (02) 6568 9766
Email robfox@midcoast.com.au

2001/02 Budget Summary

Overview

The Budget has focused primarily on social security and welfare issues. There are very few new taxation initiatives. This point has been made in the popular media, and we can confirm there are no hidden taxation "nasties". This budget is very much a case of "what you see is all there is".

Those most affected will be social security, welfare recipients and self-funded retirees.

> ***"Those most affected will be social security, welfare recipients and self-funded retirees."***

Planning opportunities for clients in this area are predominantly on the income side, not the assets side. Accordingly, there will be little or no relief for the (sometimes) drastic restructuring required of private companies and trusts, ahead of the 1 January, 2002 Centrelink changes.

The Government has introduced the following measures, the majority of which will affect senior Australians:

Pensioners below age pension age - rebate increased

Age pension age is 61½ for women and 65 for men.

The maximum pensioner rebate for persons not of age pension age has increased to $1,608 for singles and $1,155 for each member of a couple – effective tax free threshold of $15,970 (including low income rebate of $150) for singles and up to $26,606 for couples. Effective from 1st July, 2000.

Aged persons rebates increased

The maximum pensioner rebates have increased to $2,230 for singles and $1,602 for each member of a couple – effective tax-free threshold of $20,000 for singles and up to $33,612 for couples. Effective from 1 July, 2000.

Increase in Medicare Levy Threshold – Senior Australians and pensioners

Increased to $15,970 for pensioners below the age pension age who are entitled to the pensioner rebate and to $20,000 for senior Australians who are entitled to the pensioner rebate or the low income aged persons rebate. Effective from 1 July, 2000.

One-off $300 payment to the aged

A one-off, tax-free, non-means tested $300 payment available only to people over age pension age.

Exempt Superannuation from the social security means test for people aged between 55 and age pension age.

Superannuation assets to be exempt from social security means test. Effective 1 July, 2001.

Telephone allowance to Commonwealth Seniors Health Card Holders

Extend eligibility for Commonwealth Seniors Health Card

Annual income limits now increased to $50,000 for singles and $80,000 for couples. Effective by application. We expect income levels will be based on 2000-01 income.

Budget Tax Measures

- Full GST Input Tax Credits for New Motor Vehicles – effective 23rd May, 2001
- CGT Relief for shareholders of Listed Investment Companies – entitled to 50% discount.
- Superannuation Contributions and Termination Payment Surcharge Changes
- Non-Complying Superannuation Funds (& ADF's) – unable to access refunds of excess imputation credits.
- Sales Tax Refunds - Audit Activity to be increased.
- Thin Capitalisation – changes.

Year End Tax Planning

With the end of the tax year (30 June) rapidly approaching, now is the time to implement year-end tax saving strategies. Correct structuring of salaries, bonuses, superannuation, dividend levels, negative gearing, prepayments, etc can reap handsome returns when carried out prior to 30th June.

1. Accelerate Deductions

Due to new prepayment rules introduced last year, only small businesses (turnover under $1 million and depreciable assets under $3 million) can prepay business expenses and receive a full deduction this year. All other businesses are only able to claim pro rate in this tax year. The balance can be claimed in the following year. Transitional arrangements apply.

You can prepay expenses by ensuring that a cheque is drawn for the expense in June, rather than July or August. The tax laws only allow prepayments of expenses up to 13 months in advance. Even so, this is still an excellent way to legally delay payment of tax for a year, particularly for those businesses classified as "small business". Some examples of this are:

- Interest can be prepaid on a business or investment loan.
- Prepay business rent of premises or certain lease rentals on business assets.
- Repairs to vehicles and equipment can be carried out in June, rather than in July.
- Business travel and conference costs.
- Other general business expenses such as property maintenance, stationery and insurance.
- Make sure superannuation contributions by an employer (or by individual taxpayers where they can claim the personal deduction) are paid in time for the cheque to be cleared by 30th June (superannuation cannot be accrued in the same way as other expenses).

2. Deferring Taxable Income

Check the items of income that are possible to delay into the next tax year. For companies the reduction of income tax rates from 34% to 30% from 1 July, 2001 will be an extra incentive to defer taxable income into the next tax year. Not only is there an outright saving of tax due to the lower rates, there is also a 12 month deferral of tax on that income.

Some Specific Points:

- Where income will be derived by a minor who is nearing the age of 18, income deferred into the following year will attract the much lower adult rates of tax.
- Where income in the next tax year is likely to be substantially less and the applicable tax rate much lower; e.g. in the case of a downturn in business, extended holidays, retirement, etc.
- The deferring income strategy can also be utilized for personal exertion income. Salary and wages and other payments for services rendered are generally taxed when they are received. This is so whether the payment is for current or past services. This means that back pay, retrospective increases, lump sum workers' compensation arrears, bonuses, directors fees, holiday pay and the like are all assessable in the year they are received. This can work to the advantage of the taxpayer, e.g. receive a bonus or commission on 1 July rather than 30 June.

3. Superannuation - must be paid before 30 June to claim Tax Deduction.

4. Superannuation Contributions on behalf of Spouse

This is the best tax concession granted to taxpayers in many years. Investment funds can now be sheltered in a low tax (super fund) environment. The payment on behalf of your spouse, is treated as an un-deducted contribution even though you may have claimed a tax rebate. It will not be subject to the 15% contributions tax or the super surcharge.

On future withdrawal, benefits will be treated as un-deducted contributions (tax free), although any earnings on the contributions will be treated as a post June, 1983 taxable component. But remember that all superannuation members are entitled to receive the first $100,696 of post June, 1983 component tax-free. Where your spouse has little or no other super the benefits should be tax-free on withdrawal.

Who should take advantage of the Rebate?

- A couple where one spouse has assessable income (and reportable fringe benefits) less than $10,800 (see below).
- A couple approaching retirement where one partner has never been in the workforce or has been out of the workforce for some time.
- A couple where the wife ceases working to have children, but wants her superannuation savings built up on a consistent and regular basis throughout the period of child-raising.
- Those who have already retired can make their current arrangements more tax efficient by commuting part of the retired spouse's super and contributing the after tax money into the other spouse's fund where the other spouse has little or no super of their own and is under age 65.

There is no limit to the amount of contribution. There is no need to show that your spouse has worked either now or in the past (unless over 65).

Bonus – Tax Rebate Where You Have a Low Income Spouse

If your spouse has assessable income (and reportable fringe benefits) of less that $10,800 you are entitled to an 18% tax rebate on spouse super contribution up to a contribution level of $3,000. That means the maximum rebate available if you contribute $3,000 or more on behalf of your spouse is $540. The rebate is reduced by $1 for every $1 the income of your spouse exceeds $10,800 (i.e. rebate reduced to nil at $13,800). Note that this is a rebate of tax not a tax deduction. Therefore the partner making the contribution on behalf of their spouse receives the full benefit of the tax concession, even where they are on a lower tax bracket.

5. Farm Management Deposits

The Farm Management Deposits scheme system should allow primary producers to plan their taxation affairs to perfection. That is, reduce taxable income when in the top marginal tax bracket (above $60,000) and defer the income to a year when taxable income falls into the lower marginal tax brackets. Interest on amounts borrowed to fund the tax deductible deposits should also be tax deductible.

Deposits are fully tax deductible in the year of deposit. The deposit must be made prior to 30 June to be effective in this tax year. Amounts are taxable in the year of withdrawal.

6. Offset Capital Gains Against Capital Losses

This is an area that has caught many investors out. Capital losses realised in a tax year can only be offset against capital gains, made in the same year or future years. Capital losses cannot be offset against ordinary income, although they can be carried forward to future years.

Therefore you must ensure that capital losses are realised before or in the same year as the capital gain. Not in a tax year after the capital gain is made. If you have a realized capital gain in the current year, and are sitting on unrealised capital losses, you must give serious consideration to realising the loss to offset the gain in the same year.

7. Beware of Tax 'Schemes'

Do not jump into quick fix tax schemes! The Australian Securities and Investment Commission (ASIC) has issued warnings about investors putting their hard-earned money into a variety of schemes promoted as year-end tax saving arrangements.

As a very minimum the investment proposal should be accompanied with a Tax Office Product Ruling.

"As a very minimum the investment proposal should be accompanied with a Tax Office Product Ruling."

The Rulings don't pass comment on the commercial viability of a project, but will at least clarify the tax position.

Home Office Expenses

The tax office recently expressed its views on the calculation of home office expense tax deductions. If you do any work from home you may be entitled to tax deductions. Tips for calculating deduction amounts include:-

Diary records covering a representative four-week period may be used to establish a pattern of use for the whole year.

Deductions are allowable for electricity, gas and the depreciation of office furniture based on either the actual expense (based on the pattern of use) or calculated at a rate of 20 cents per hour.

Deductions for other expenses, such as telephone costs and the depreciation of computer equipment must be calculated separately by apportioning actual costs between income-producing use and other use.

Car Expenses

Tax deductible cents per kilometer rates for the year ended 30 June, 2001 are as follows:

Engine capacity:

Non-Rotary Cars	Rotary cars	Cents Per Kilometres
0 – 1600cc	0 – 800cc	48.9
1601 – 2600cc	801 – 1300cc	58.5
2601cc+	1300cc+	59.5

These rates apply to claims for no more than 5,000 business kilometres use of a car during the income year.

Loan Fringe Benefits -
FBT Benchmark Interest Rate

The benchmark interest rate for the FBT year commencing 1 April, 2001 is 7.55% per annum. The rate for the FBT year commencing 1 April, 2000 was 7.3%.

The benchmark interest rate is used to calculate the taxable value of:

- Loan fringe benefit; and
- A car fringe benefit, where the employer chooses to value the benefit using the operating cost method.

Disclaimer: The contents of this publication are general in nature and we accept no responsibility for persons acting on information contained herein without first consulting us.