

NEWSFLASH BOOKLET

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2010-2011 FINANCIAL YEAR END TAX STRATEGIES

Please note this booklet is updated in May each year. Until the budget is released our strategies for the year are not certain. This booklet is provided to give you some guidelines in planning but please check again in June before you commit.

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Introduction

The tax rates for both the 2010/2011 and the 2011/2012 financial years are the same. Using the tax rates shown below make sure that you are going to at least be in the same or a lower tax bracket next year before you implement strategies that transfer deductions from next year into 2010/11, in fact with the flood levy, high income earners will be in a higher tax bracket in 2011/12 so it may be worth saving your deductions until then. Generally the best tax planning is to keep your tax rate around the same bracket each year and of course make sure that is the minimum possible on average. One of the most effective tax planning strategies is to level out your income over each year and each member of your financially dependent family over 18. It does not particularly matter that the amount of income is the same each year and for each family member it is more important that the tax bracket is the same. Keeping the tax bracket the same gets a bit complicated if one or more of the members has an income of over \$30,000 but less than \$63,750. In this range they are really in the 34% tax bracket because their low income tax offset is shading out.

In the rush to reduce your tax for the 2011 financial year don't buy products specifically designed to reduce tax, unless that have a ruling from the ATO.

Tax Rates

2010/2011 and 2011/2012

\$ 0 - \$ 6,000	0%
\$ 6,001 - \$ 37,000	15%
\$ 37,001 - \$ 80,000	30%
\$80,001 - \$180,000	37%
Over \$180,000	45%

Note excludes 1.5% Medicare Levy.

Flood Levy

Here are the proposed numbers. The levy will only apply to people with a taxable income exceeding \$50,000 it does not appear that they will apply their new adjusted taxable income definition to the flood levy. It will only apply in the 2011/2012 financial year and will not be payable by anyone who qualified for flood relief.

The first \$50,000 after the \$50,000 threshold will attract a flood levy of ½% but only on the excess income above the \$50,000 threshold. If your income exceeds \$100,000 not only will you pay ½% between \$50,000 and \$100,000 you will also pay 1% on any income above \$100,000.

Tax Offsets

In the 2010/11 year if you earn \$16,000 or less you will not pay any tax so it is important to make sure you use all of this threshold up.

Year	Offset Amount	Tax Free Income*	Starts to Shade out	Lost at	Tax Rate While Shading
2010/11	1,500	16,000	30,000	67,500	19% till \$37,000 then 34%
2011/12	1,500	16,000	30,000	67,500	19% till \$37,000 then 34%
2012/13	2,100	20,000	30,000	82,500	19% till \$37,000 then 34%

* This only applies if that is all the taxable income you have, otherwise you will start paying tax at \$6,000.

Passive Income of Minors

The 2010/2011 financial year is the last time minors will be able to use the low income tax offset against the tax on their passive income. So for the 2010/2011 financial year they can have a total taxable income of \$3,333.33 before they pay any tax. For 2011/12 and following years children under 18 years of age will only be allowed \$416 in passive income before they start to pay tax at the maximum rate. There are exceptions if they actually earn the income. There are concessions for minors who are orphaned, married etc and it does not apply to passive income from inheritances.

Did You Claim a Deduction For Superannuation Last Year?

Section 290-170(1)(b) ITAA has, since 2007, set the end of the following financial as the deadline to notify your superannuation fund that you are claiming your superannuation contribution as a tax deduction. Further you must have advised the fund before you lodge your tax return so it really should be notified well before the end of the next financial year anyway.

The trap here is even if you don't lodge your 2010 tax return on time you must advise the superannuation fund, before 30th June 2011 that you intend to claim the contribution as a tax, or you will simply not be entitled to that tax deduction.

The ATO has no discretion to extend this time. No matter how good your excuse you simply cannot go beyond the end of the next financial year. If you miss the deadline the contribution will be treated as a undeducted contribution/ non concessional contribution, so at least it won't be taxed in the hands of the superannuation fund but it is locked away until you retire.

Spending Money On Your Rental Before Year End

If you have a bit of spare cash and feel you pay too much tax you maybe considering spending it on your rental property before 30th June, 2011. Here are some of the basic strategies explained.

Payments in advance:

This is simply borrowing deductions from next year to claim in this year. It is not good if you will be in a higher tax bracket next year, in those circumstances waiting the extra year for the benefit will mean a bigger refund. You can only pay a maximum of 12 months in advance. In the case of interest payments you could get one year ahead and keep it that way but it is best to save this for when you need it most because it can only be used effectively once. And if you don't keep on paying interest in advance from that point onwards, you will have a year with no interest deduction. It is really a tool for evening out fluctuating incomes. Check if the bank will let you do this and that they do take it as an interest payment not just let it reduce the loan balance. If you have recently purchased a property consider organising your quantity surveyors report before the end of the year so that you get tax deduction for the cost in your 2011 tax return.

Repairs and maintenance:

You need to make sure you at least incurred the expense before the end of this financial year. This means organising for the work to be done even if you have not paid for it yet. This is particularly important if your tenants have moved out and you do not intend re letting the property. If you don't "incur" the repairs now you will not be entitled to a tax deduction next year because the property has not earned any rental income in that year.

So just what is classed as a repair? Initial repairs are not deductible. If the house needed painting when you bought it then painting it would be an improvement. On the other hand if during the time of your ownership the paint starts to peel and you repaint, these expenses would be a deduction.

A repair can become an improvement, which is not deductible, if it does not restore things to their original state i.e. replacing a metal roof with tiles. But a change is not always an improvement. The ATO says the cost of removing carpets and polishing the existing floorboards is a deductible repair yet underpinning due to subsidence is considered to be an improvement.

Tree removal is claimable if the trees have become diseased or infested during the time of ownership. Removal is also claimable if the tree is causing damage such as roots interfering with pipes and the damage was not present when you purchased the property. If a tree is removed because it may cause damage in the future or you are fed up with the leaf litter that has always happened since you bought the property, then you are making an improvement which is not deductible.

Take care to perform repairs only when the premises are tenanted or in a period where the property will be tenanted before and after with no private use in the middle. It is better not to make repairs in a financial year during which you may not receive any rental income. If a property is used only as a rental property during the whole year then a repair would be fully deductible even though some of the damage may have been done in previous years when the property was used for private purposes.

If you replace something in its entirety. For example replace a worn fence a bit at a time over a few years rather than all at once. Replacing all the cupboards in a kitchen so they match rather than just the damaged one

will mean that none of the expenditure is deductible on the other hand replacing a vanity can be deductible as a repair if the pipes from the old vanity are used

Buying plant and equipment:

As these items are usually depreciated over many years buying them towards the end of the financial year could mean you only qualify for one month's depreciation which would be a very small fraction of what you have spent. Items costing \$300 or less can be written off immediately. Like items must be added together when applying the \$300 test so it may be better to buy one set of curtains this year and wait until July before you buy the next set. Items costing under \$1,000 will qualify for depreciation of 18.75% in the first year, regardless of when you purchase them. Both these thresholds are per owner so a \$1,900 hot water system for a property owned by 2 people would qualify as under \$1,000, likewise if a range hood cost \$500 yet there are two owners of the property then it can be written off immediately.

Superannuation Concessions for Low Income Earners

The government will make a co contribution of up to \$1,000 into your superannuation fund if you contribute \$1,000 out of your after tax pay that you don't claim a tax deduction for. Neither yours nor the government's \$1,000 will be taxed in the hands of the superannuation fund. The co contribution is reduced on a pro rata basis if you contribute less than \$1,000. Your assessable income needs to be under \$31,920 if it exceeds this but is less than \$61,920 you will still get some co contribution, the \$1,000 shades out at the rate of 3.333 cents for every dollar over the \$31,920. Note assessable income is not your taxable income, it is your income plus reportable fringe benefits and reportable superannuation contributions (generally those you salary sacrifice). In the case of self employed their assessable income is not reduced by any superannuation contributions for which they claim a tax deduction. Generally expenses you claim as a tax deduction cannot reduce your assessable income. Though, sole traders are allowed to reduce their assessable income by business deductions. In the case of partnership or trust income it is only your share and the net amount (income less deductions) that is included as assessable income, regardless of whether it is business or passive income. If you are the sole owner of a rental property then the gross rent is included in your assessable income without deduction for the expenses. But if you own the property with at least one other person then it is only your share of the net income from the property that is included in your assessable income. It may be necessary to lodge a partnership tax return to ensure this happens.

You will not qualify for a co contribution if you only have passive income. At least 10% or more of your income needs to be from wages or a business but when doing this calculation you can ignore business expenses which will make it quite easy to pass the test if you are in business. Note trust income even if from a business is still considered passive so you may need to consider having the trust pay you a wage. The following table provides some examples of how total income is counted for co-contributions and the 10% test.

Income source	Total income	Eligible income for the 10% test
Salary or wages, including employment income through a company or trust	Yes	Yes, where you are treated as an employee for the purposes of the <i>Superannuation Guarantee (Administration) Act 1992</i>
Director fees as a company director	Yes	Yes, where you are treated as an employee for the purposes of the <i>Superannuation Guarantee (Administration) Act 1992</i>
Business income as a sole trader	Yes	Yes
Other income from individually held assets (including interest, rent and dividends)	Yes	No
Business partnership distribution	Yes	Yes
Non-business partnership distribution	Yes	No
Distribution from a trust	Yes	No

The work test applies between 65 and 70 (40 hours in 30 days). Once you reach 71 no co contributions is available.

Spouse Contribution

The other low income concession is for taxpayers on any income level who have a low income spouse. If the low income spouse has assessable income (refer above) plus reportable FBT and superannuation of less than \$10,800 their spouse can make a superannuation contribution for them of up to \$3,000 and receive a tax offset of 18%. A tax offset reduces the amount of tax the higher income spouse has to pay. It can mean that you will receive a refund of any tax you may have paid during the year because the offset is used to pay the tax instead but if the higher income spouse's income is so low that they do not have any tax liability then the offset is wasted. So this arrangement is only beneficial when the spouse making the contribution has a taxable income above \$16,000. As the superannuation contribution for a low income spouse is not actually claimed as a tax deduction it is not taxed in the hands of the superannuation fund. If the low income spouse's assessable income is more than \$10,800 but less than \$13,800 the higher income spouse will still qualify for some tax offset the shade out rate is 18%.

The work test applies between 65 and 70. Once the spouse reaches 71 no spouse contributions can be made. There is a nice little trick if the low income spouse is between 55 and 65 and retired. The contribution can be made and then withdrawn, tax free, a few days later yet the high income spouse will still qualify for the tax offset.

In all cases above make sure the money is actually in the sure the money is actually in the superannuation fund before 30th June, 2011.

Superannuation Contributions To Reduce Taxable Income

If you do not have employer support, and you are under 65 years of age you can make a tax deductible superannuation contribution for yourself up to the age base limit of \$25,000 if you are under 50 and \$50,000 for 50 and over, at least for the 2010/2011 financial year. After that the 50's and over will have to satisfy a further condition of having less than \$500,000 in superannuation go be able to make the \$50,000 contribution.

Once you reach 65 years of age you need to satisfy a work test to qualify to make superannuation contributions. This means the person must have worked more than 40 hours in a period of 30 days or less in the financial year the contribution is made. Careful here, if you retire at the 30th June and decide to make a superannuation contribution for yourself the very next day you will not meet the work test because the contribution was made in a different financial year.

If you are 65 years of age or over your employer is entitled to make a superannuation contribution for you and claim it as a tax deduction providing it is only the amount your employer is required to contribute under the superannuation guarantee or your award. There is one exception to this rule, if you are less than 69 years of age and satisfy the work test above your employer's contribution is not limited to the guarantee or the award, so you can utilize salary sacrifice.

If you are between 65 and 75 years of age but satisfy the work test you are entitled to make a superannuation contribution. If you do not have employer support you will be entitled to claim the contribution as a tax deduction providing it is less than \$50,000. You have up to 28 days after your 75th birthday to make the contribution.

Quick Checklist

The following are some expenses that you may consider paying in advance to bring forward deductions, but don't pay them more than 12 months in advance.

- Insurance Premiums – such as income insurance or regarding rental properties or business.
- Deductible Interest – make sure the bank treat it as a prepayment of interest, not a repayment principle
- Lease Payments
- Purchasing Your Quantity Surveyors Report Before 30th June
- Incurring repairs

Other Basic strategies

If you have a capital gain analyse your share portfolio for a capital loss that you intend to realise soon. Better it be realised this financial year then next as it can only be offset against your capital gain if it is realised in this year.

Tax minimisation products – this refers to investments specifically designed to reduce your tax. Firstly these products generally shift the tax to their pockets as they carefully arrange the investment so it is only marginally better than the tax saving and then only if the forecasts are correct. Secondly do not enter into these arrangements unless you have a product ruling from the ATO and make sure the arrangement is in accordance with that ruling.

Superannuation is a smorgasbord of tax reduction strategies.

Diaries - For a diary to apply to the 2010/2011 financial year it must be started before 30th June, 2011, more detail on this later in the booklet.

Start Diaries Before the End of The Year

For a diary to apply to the 2010/2011 financial year it must be started before 30th June, 2011.

Phone - A detailed phone account statement analysing each phone call will substitute for a diary on a mobile phone and for the STD and mobile calls on the home phone but unless your local calls from home are itemised you will have to keep a diary for them. Just divide a piece of paper into two, one side for business and the other side for private. Tick the relevant column when you make a local call. Do this for 1 month to work out the ratio of business to private calls and apply this percentage to the local calls on your phone statement. Phone rental is apportioned on the total dollar value of the business calls as a percentage of all calls. The ATO is getting very pedantic about diaries as it recently was successful in persuading a court to disallow a taxpayer any claim for mobile phone calls because the taxpayer did not have a diary yet the taxpayer used the phone 95% for business.

Electricity - You can claim electricity based on the number of hours you have used a room solely for work related purposes. The rate is 26 cents an hour which also covers the other costs associated with the room such as furniture and carpet wear. You will need to keep a diary for a month to substantiate this claim.

Cars - You can use the kilometre rate if you only want to claim 5,000 kms per car you own. The 5,000 kilometres is per car per owner so if you rotate cars with your spouse and you both use your car for work purposes you can claim up to 10,000kms each. The 2007/08 kilometre rates are; up to 1.6 litre 58 cents a kilometre, between 1.601 and 2.6 litres 69 cents and over 2.6 litre 70 cents.

You may be able to claim for your car if you transport bulky equipment to and from work, if there is no secure storage at work. A claim is also allowable for travel to an abnormal workplace if you have a normal workplace. Also consider travel during the day after you have reached work i.e. banking or travel to another job. In order to be able to make these claims you must have a detailed reasonable estimate of the kilometers travelled and which car you used. This is simply a diary of the trips you did and the kilometres travelled. If the distance is the same every day record the days travelled. A one month diary is ok if this is reflective of the rest of the year but don't forget those one off trips at other times during the year. If you are going to travel considerably further than 5,000km per car consider keeping a log book for 3 months that is started before 30th June. Also keep receipts for all expenses all year and take the speedo reading each 30th June. More details on the record keeping requirements are in our Claiming A Motor Vehicle Booklet.

Buying Equipment to Reduce Tax

If the equipment is going to be depreciated under normal circumstances there is not much benefit in buying it at the year end because the depreciation claimable is apportioned over the year and life of the item so the deduction would be minimal.

It would be different if you leased the equipment, qualified as a small business and made 12 months lease payments in advance. You would get a full deduction for those prepayments.

There are concessions for small purchases. Note the basic difference between a small and large business is the \$2 million turnover threshold.

Large Businesses – Equipment costing less than \$100 (GST exclusive if registered) can be written off immediately.

Small Businesses - Can immediately write off equipment costing less than \$1,000 (net of GST if claimable) if the item is part of a set the whole set must be under \$1,000.

Wage Earners – Can immediately write off equipment costing less than \$300 (GST Inclusive) but all items that are identical must be added together for the \$300 test. If an item is part of a set the set must be under \$300.

Large Businesses - that buy a piece of equipment for less than \$1,000 can write 18.75% of the purchase price off in the year of purchase regardless of when it is bought.

Small Business - can write off 15% of any equipment in the year it is purchased if the life expectancy is less than 25 years.

Wage Earners and Rental Property Owners – Can claim 18.75% in the first year, on equipment costing less than \$1,000 regardless of when purchase. The threshold for rental property owners is actually \$1,000 per owner so a \$1,900 hot water system for a property owned by 2 people would qualify.

Non Commercial Losses (Div 35)

Division 35 prevents business losses being claimed against other income unless certain conditions are met but there is opportunity in the detail with some of these conditions, for example:

a) If the loss is primary production and your total gross assessable non primary production income is less than \$40,000 the loss maybe offset against your other income. This concession also applies to a professional arts business. Note the \$40,000 does not include capital gains. If the other income is from a partnership, it is only your share of the net profit of the partnership that is added to your assessable income if the partners are natural persons. This makes forming a partnership a very attractive option even if APSI requires you to return the net profit as 100% yours because if you were a sole trader your assessable income would be the total sales of the business before deductions. If you are a wage earner, a partnership will not solve your problem therefore salary sacrificing may be the solution if you are just over the \$40,000 limit, try to stick with as many exempt benefits or concessionally treated car benefits. Otherwise the FBT payable at 15% more than your marginal tax rate would erode the advantages of being able to offset the losses.

b) Losses can also be offset against other income if the assessable income from the business activity is at least \$20,000. The assessable income is sales plus the increase in stock i.e. closing stock less opening stock. Therefore if you purchase more trading stock you will increase the closing stock and therefore increase the assessable income. Note the trading stock has to be on hand for it to be included in closing stock. So you cannot just order it and bring it into account as a creditor. Buying and selling will also increase assessable income so there are plenty of ideas to work with here. There is also a concession for the first year of trading. If a "reasonable estimate" would conclude that had you been trading for the full year you would have made \$20,000 worth of sales plus closing stock (no opening stock in first year) then you are considered to have turned over the \$20,000. This also applies to the last year of trading but in that year there will be opening stock.

c) Salary package the expenses relating to the non commercial business. As they are otherwise deductible your employer will not have to pay FBT. This should make the non-commercial business actually profitable and you wages income will be reduce. This would have the same effect on your tax payable as claiming the business expenses as a tax deduction.

Note none of these exceptions will help you if your taxable income exceeds \$250,000

Trusts Be Warned

Before the end of the financial year all taxpayers who have discretionary trust should execute a minute determining how the profits for the 2011 financial year will be distributed. As the exact amount will not be known this should be done on a percentage basis or by exact amounts with a beneficiary who will receive the balance. Note children under 18 are only allowed to earn \$3,333.00, in passive income a year before being subject to tax at the top marginal rate. If they also have income from a part time job this amount reduces.

If your trust does not make a profit it is not entitled to distribute franking credits and they will be lost forever. So if your trust receives franked dividends it is important that you do interim accounts to ensure a profit will be made.

If you intend distributing some of the trust profits into a bucket company make sure you consult your accountant first.

Government Energy Efficient Rebate

The rebate is an assessable recoupment. This is covered in TD 2006/31. It will have the effect of reducing the amount you can claim as a tax deduction. The full amount you paid for the item is included as an expense in your tax return then the rebate is included as income. If instead the item purchased is to be depreciated then you'll need to claim as income each year the amount of depreciation claimable until the whole rebate is used up. For example, if you bought a solar hot water system for \$3,000 and depreciated it over 15 years on a prime cost basis, you'd be entitled to a \$200 deduction each year. If you received a \$1,000 rebate then for the first five years you'd need to include \$200 in your taxable income to offset the depreciation.

Wash Sales

TR 2008/1 is the relevant ruling on when the ATO will apply Part IVA (scheme with the dominant purpose of a tax benefit) to a share transaction that creates a capital loss in a year that loss would be very handy in offsetting a capital gain. Not a problem unless you somehow retain the benefit of the shares. So effectively all you have done is triggered a capital loss but still hold the shares in the hope of making a future capital gain.

A key quote from the ruling:

“The term wash sale does not have any precise meaning. In commerce the term wash sale is used to describe the sale and purchase of the same, or substantially the same, asset within a short period of time of each other. The sale and purchase cancel each other out with the result that there is effectively no change in the economic exposure of the owner to the asset. More generally, the expression wash sale is used to describe arrangements where a disposition of an asset occurs without an intention of ceasing to hold an economic exposure to the asset.”

Examples in the ruling are:

- (a) The taxpayer disposes of, or deals with, the asset and at the same time, or within a short period after, acquires the same or substantially the same asset,
- (b) Shortly prior to, or at the time of disposing of, or dealing with, the asset the taxpayer acquires the same, or substantially the same, asset;
- (c) Shortly prior to, at the time of, or shortly after disposing of or dealing with the asset the taxpayer enters into an arrangement to acquire the same, or substantially the same, as asset at a future point in time at a price that is substantially the same as the sale proceeds received on disposal of the original asset and acquires that asset under the arrangement
- (d) Shortly prior to, at the time of, or shortly after disposing of, or dealing with, the asset the taxpayer enters into derivatives or financial instruments that substantially provide continued exposure to the risks and opportunities of the asset, as if the taxpayer had continued to hold the asset,
- (e) Shortly prior to, at the time of, or shortly after disposing of , or dealing with, the asset the taxpayer enters into arrangements under which the taxpayer is entitled to, relative to the taxpayer's prior interest, the future income produced by the asset and/or any capital appreciation in the asset, or to a reimbursement for any future income produced by, or capital appreciation in the asset,
- (f) The taxpayer disposes of or deals with the asset to a company which the taxpayer is a member of, or to a trustee of a trust the taxpayer is a beneficiary or an object of, and the taxpayer controls or influences the company or trustee, or is the trustee or appointor,
- (g) The taxpayer disposes of or deals with the asset to a company which the taxpayer controls or has influence over but is not a member of, or to a trustee of a trust which the taxpayer controls or has influence over or is the trustee, or appointor or, but is not a beneficiary or an object of. The financial benefits of the asset are not distributed to the members or beneficiaries/objects but rather the company or trustee disposes of the asset to the taxpayer or enters into arrangements to provide the financial benefits of the asset to the taxpayer,
- (h) The taxpayer disposes of the asset or otherwise deals with the asset in circumstances where there is a significant overlap in the individuals who had direct or indirect interest in the asset before and after the disposal or dealing. For example, the asset is transferred from one wholly owned company to another, or between two trusts with the same trustee and class of beneficiaries or objects, or
- (i) The taxpayer disposes of the asset to family members and an arrangement or understanding exists between the parties to the effect that the asset will be reacquired by the taxpayer, the future income produced by the asset and or any capital appreciation in the asset will be provide to the taxpayer or

applied for the benefit of the taxpayer or there is otherwise no change in how the financial benefits produced by the asset are utilised by the taxpayer when compared to what occurred prior to the disposal.

In paragraph 6 it states “Where a taxpayer disposes of shares in one company, and purchases shares in a competitor company that carries on a similar business, the shares in the two companies do not constitute substantially the same assets”. So at least you can still stay in the same industry and recognise a capital loss. The ruling also targets sales to associates, so selling the shares to your spouse or selling your shares and your spouse buying the same may be caught

Of course you do not have to worry if the sale does not result in a loss. I have particular trouble with this attitude because the taxpayer is making a simple choice and Part IVA is not supposed to interfere with taxpayers simply choosing a course of action that is readily open to them. The ATO uses its usually elusive naughty thoughts argument. The scheme is supposed to be, thinking about, maybe even discussing future purchase prices with a broker, selling the shares to trigger the capital loss, with thoughts of buying them back. This sounds like, to borrow a concept from Hart’s case, how can any rational person not consider this benefit?

What Is In and What Is Out Now for Tax Offsets

From the 1st July, 2009 many income thresholds for tax concessions will include your reportable superannuation contributions and require your rental losses to be added back. Reportable superannuation contributions are explained in Newsflash 194.

Mature Age Worker Tax Offset - Up to \$500 if you are over 55 years of age and still working. Your net income from working (either as an employee or in business) needs to be under \$63,000, this includes reportable fringe benefits, reportable employer superannuation contributions (this is usually the amount you have salary sacrificed) but does not include any passive income or termination payments and can be reduced by work or business related deductions

The Senior Australian Tax Offset – You must be of age pension age and have a “rebate” income under the threshold released each year. Your rebate income is your taxable income plus any personal superannuation contributions you make and your net investment losses will be added back.

HELP, Hecs Etc – The income that will be applied to the threshold is your taxable income plus your reportable fringe benefits and reportable superannuation contributions, you will also need to add back your net investment losses and exempt foreign income.

Child Support – Reportable superannuation contributions are no included in your Child Support income.

Budget Summary 2011/2012

The tax rates for 2011/2012 will remain the same as they were in 2010/2011 but high income earners will have to pay a flood levy in 2011/12 of up to 1%. The tax rates for both the 2011 and 2012 financial year will be:

0	-	6,000	0%
6,001	-	37,000	15%
37,001	-	80,000	30%
80,001	-	180,000	37%
180,001	+		45%

The most surprising and significant change that came out of the budget was the removal of the low income tax offset for minors receiving passive income. The 2010/2011 financial year is ok, the changes take effect from 1st July, 2011. The low income tax offset has been a key incentive for investing in or operating a business through a discretionary trust.

For the 2010/2011 financial year you will still be able to redirect up to \$3,333 in profits to each minor, tax free, if they have no other income.

For 2011/12 and following years children under 18 years of age will only be allowed \$416 in passive income before they start to pay tax at the maximum rate. There are exceptions if they actually earn the income. There are also concessions for minors who are orphaned, married etc and it does not apply to passive income from inheritances.

In 2011/2012 the low income tax offset will be \$1,500 which will mean taxpayers with only \$16,000 in taxable income will pay no tax. The low income tax offset starts to shade out at \$30,000 and completely disappears if your income is more than 67,499. This means that taxpayers between \$30,000 and \$67,500 really

have an effective tax rate of 19% till \$37,000 then 34% because the low income tax offset shades out by 4% for every extra dollar earned. Up till 30th June, 2011 only 50% of the tax offset was received through a reduction in the tax taken from your wages. The rest was received when you lodged your income tax return. If you are a low income earner expect a bit of a boost from 1st July, 2011 as now 70% of the low income tax offset will be received through your pay packet but of course this only means a lower tax refund at the end of the year.

FBT payable on motor vehicles, provided by employers, also received a significant change. It will be shaded in over several years. And should be of particular interest to employees who salary sacrifice their vehicle. In these sorts of arrangements your overall package is reduced by the FBT payable so, even though your employer pays the FBT it does affect your hip pocket. For the FBT year beginning 1st April 2014 all motor vehicles, regardless of the amount of kilometres travelled, will be taxed at the same rate. Namely, 20% of the price of the motor vehicle if the formula method is used. The actual cost/log book method can still be used, which will calculate the FBT payable in strict accordance with the ratio of business to private use of the vehicle.

What this means is instead of having to worry about getting the kilometres in your car up to a threshold to reduce the FBT. You are now actually better off (simply because of less fuel consumption) to minimise the use of the vehicle as any advantage for extra use has been removed.

Having been thoroughly beaten through the court system on the issue of whether education expenses can be claimed as a tax deduction against Youth Allowance. The Government now proposes to change the law to disallow the claiming of self education expenses against all government assistance. While nothing is in writing yet, whatever they do will be back dated to the 1st July, 2011. So we can all sleep well at nights knowing that the ATO is protecting the tax base by extracting tax from students with part time jobs. While gaping holes still exist in tax laws that affect high wealth individuals. And while they were busy bring university students to justice they also reduced, from 1st January, 2012, the up front HECS discount from 20% to 10% and discount for voluntary payments of \$500 or more is reduced from 10% to 5%. The latter meaning graduates maybe better off putting the money on term deposit than making a voluntary payment off their HECS. That's the way, Mr Swan, that will help put the budget in surplus!

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Disclaimer: Please note in many cases the legislation referred to above has only just passed through parliament. The full effect is not clear yet but it is already necessary to make you aware of the ramifications despite the limited commentary available. On the other side of the coin by the time you read this information it may be out of date. The information is presented in summary form and intended only to draw your attention to issues you should further discuss with your accountant. Please do not act on this information without further consultation. We disclaim any responsibility for actions taken on the above without further advice as to your particular circumstances.