

# NEWSFLASH

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**Welcome to the BAN TACS News Flash. Our aim is to provide short but succinct updates on all tax issues**

## Column by Noel Whittaker

Do you want to make a guaranteed 100% on your money between now and June 30th? Then rush off to your financial adviser and make a non-concessional contribution of \$1,000 to superannuation. Provided you meet the eligibility guidelines, the Government will give you a tax-free bonus of \$1,000, which will see your \$1,000 miraculously turned into \$2,000.

The maximum government co-contribution is \$1 for every \$1 of eligible personal super contributions made in a financial year and is subject to an income test. The maximum co-contribution of \$1,000 is reduced by 3.333 cents for every dollar that the taxpayer's total income exceeds \$31,920.

As income rises the co-contribution reduces by \$33.33 for each \$1,000 of additional income, until it cuts out at \$61,920 a year.

For co-contribution purposes your income is your assessable income plus your reportable fringe benefits and reportable employer super contributions including salary sacrifice. To be eligible for the co-contribution, you must have received at least 10 per cent of your income from what is called "eligible employment" - usually income from salary or wages or from your business.

Just be aware that the employer compulsory superannuation does not count for the co-contribution. To be eligible you must make an additional contribution from after tax dollars. This is not subject to the 15% entry tax.

It is also possible to make a quick capital guaranteed 18% on your money. Think about a spouse superannuation contribution. Provided the spouse's assessable income is less than \$10,800, the contributor will be entitled to a tax rebate of 18% of the contribution with a maximum of \$540. The amount of rebate reduces progressively once the spouse earns over \$10,800 and cuts out at \$13,800. It's a simple way to turn \$3,000 into \$3,540.

Noel Whittaker is a co-founder of Whittaker Macnaught Pty Ltd. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. His email is [noelwhit@gmail.com](mailto:noelwhit@gmail.com)

## Tax Rates - Time for Tax Planning

Over the next 4 editions of Newsflash we will be bringing you lots of articles on year end tax strategies. It is important to consider whether your tax situation this year really warrants planning. There is little benefit in drawing deductions into this year if you are going to be in a higher tax bracket next year. The higher the tax bracket the more that the ATO will contribute towards the expense. So here are the tax rates for this year and next year.

### 2011/2012

Tax Free Threshold \$6,000

Due to the Low Income Tax offset (LITO) no tax if your total taxable income is Under \$16,000

Taxpayers are entitled to LITO when their income is under \$67,500 but it starts to shade out at 4 cents for every dollar after \$30,000. Accordingly, if your total taxable income is under \$67,500 the marginal rate of tax you will pay on each extra dollar, will be:

15% tax rate between \$16,001 and \$30,000

19% tax rate between \$30,001 and \$37,000

34% tax rate between \$37,001 and \$67,500

If your total taxable income is above \$67,500 then LITO does not affect you at all. Your tax brackets are:

Between \$67,500 and \$80,000 30%

Between \$80,001 and \$180,000 37%

Over \$180,000 45%

### 2012/2013

Tax Free Threshold \$18,200

Due to LITO no tax if your total taxable income is Under \$20,542

Taxpayers are entitled to LITO when their income is under \$66,660 but it starts to shade out after \$37,000 at the rate of 1 and a half cents per dollar. Accordingly, if your total taxable income is Under \$66,660

19% tax rate between \$20,543 and \$37,000

34% tax rate between \$37,001 and \$66,660

If your total taxable income is above \$66,660 then LITO does not affect you at all. Your tax brackets are:

Between \$66,661 and \$80,000 32.5%

Between \$80,001 and \$180,000 37%

Over \$180,000 45%

Note all the above excludes the Medicare levy, which is 1.5% in most cases.

The flood levy only applies to the 2012 year if your income is over \$50,000 you pay half a percent on each dollar above that up to \$100,000 then 1% above that. So for example in 2012/2013 if you earn \$37,000 then the last \$16,458 you earn will be taxed at 19% plus Medicare but if you earn another dollar that dollar will be taxed at 34% plus Medicare.

## Double Your Superannuation Cap

In ID 2012/16 the ATO agree that a superannuation contribution received by the fund before 30<sup>th</sup> June but not allocated to your account by July is deductible in the year it was received by the fund but does not count towards your cap until the year it is allocated to your account.

This is a once in every two years opportunity to double your deductible superannuation contribution. This may be useful if you get caught this year with an exceptionally large income, but as it cuts out the cap for the next year it should only be used for unusual fluctuations in income such as the sale of a property.

It is important that the fund actually receives the money before 30<sup>th</sup> June. As a result you could qualify for a tax deduction for up to \$50,000 in the financial year that includes that 30<sup>th</sup> June. But be careful, your contribution cap includes employer contributions under the guarantee so if you have employer superannuation support you need to make sure you do not use up your full \$25,000 for the following year. Leave enough for to cover the superannuation contributions your employer is required to make. Further, if you have employer support you will need to salary sacrifice your contribution.

This article is simply a heads up, do not attempt this strategy without careful planning and professional advice.

## Buying Plant and Equipment - A Year End Tax Strategy?

You may be considering buying plant and equipment before the end of the financial year in order to benefit from a tax deduction. In the case of rental properties and businesses too big to qualify for the small business concessions the equipment is depreciated so you will only qualify for one month's depreciation which will be an insignificant portion of the cost.

Of particular importance this year is the fact that delaying your purchase until next financial year will mean you qualify for the increased immediate write off threshold. These new concessions only apply to small business and do not apply to rental properties. Here is a comparison, all amounts are net of GST if you qualify for input credits:

### 2011/2012

Immediate tax deduction if it cost less than \$1,000. If the life expectancy is less than 25 years but the cost is over \$1,000 then it is depreciated at 15% in the first year then 30% diminishing rate, in a low value pool.

### 2012/2013

Immediate tax deduction if it cost less than \$6,500, above that amount it is placed in a pool to be depreciated at 15% in the first year (no matter which month purchased) then 30% diminishing rate after that.

Of course it is only the business use portion of an asset that can be written off or added to the pool so for example if you were to purchase a car for \$6,500 that was going to be used half for business and half for private use you would only be able to write off \$3,250. Further, later improvements to the equipment have to be added to its original price and other improvements to determine whether they qualify for immediate write off or the pool. So if a tow bar worth \$500 was later added to the car the tow bar would have to be depreciated in the pool because it took the whole asset over the \$6,500 threshold even though the car still qualified for immediate write off. There is no grouping provisions for identical items or those forming part of a set. Which effectively means a \$10,000 set of spanners could qualify as under the \$6,500 threshold.

Once the pool balance drops below \$6,500 it can be written off.

There is a further concession that applies to the purchase of motor vehicles. If they cost over \$6,500 the first \$5,000 can be immediately written off. Motor vehicles include cars, 4wds, trucks, vans, utes, motorbikes and scooters. The vehicle can be second hand. Again the price of the vehicle may need to be apportioned between business and private use, if the business use portion is \$5,000 or less then it can be completely written off but when it is sold the business portion of the sale proceeds must be added back to the pool.

These concessions will not work for leased equipment.

## Where There's A Will There's A Way

On the news last week was a sad story of a mother who died suddenly at home, leaving her toddler child alone in the world, which makes you think it could happen to anyone you know.... We have seen firsthand the devastation it can cause for those left behind. Let us tell you about one such real life case:

Last year a lovely senior lady approached us for advice after her daughter (in her 40's) died suddenly, leaving her to care for her granddaughter. There was no will, few assets, just a small amount in three separate superannuation accounts: certainly not enough to raise a child on.

After we ascertained the facts we discovered that although the super balances were small, there was life insurance attached to two of the funds. However getting the money was no easy feat.

Firstly the client had to assert her right to be involved in the claims process, which was complicated by the absence of a will and that the deceased was a single parent. This involved the client obtaining a Family Court Parenting Order so the trustees could treat her as a guardian. Secondly the "preferences" the deceased had made in her super forms were not valid under law (e.g. she had nominated her mother, who was not deemed a dependant). Thirdly one of the super funds had a policy (due to the amount involved) that recommended all death benefits over a certain amount should be administered by the public trustee's office.

The client had to seek legal advice on several occasions and at great personal expense, while all the trustees delayed payment. We say delayed as she is still awaiting one of the payments nearly 12 months after her daughter's death, and the first payment still took 9 months.

So how could this situation have been avoided? Although every person's situation is different, it was clear to the deceased's family that the priority was to look after the minor child and ensure there were sufficient funds to meet her needs. Even the trustees of each of the superannuation funds agreed, they just

took a long, long time to decide that and then to agree on who would be the best person to administer such funds.

Had the deceased made a will, appointed an executor, and under legal advice made proper provision for her daughter, then advised each of the superannuation funds that she wished to make a binding death benefit nomination to pay to her estate, the super fund trustees would have had little choice than to pay the funds in this way, as soon as possible i.e. avoiding trustees having to make discretionary decisions. The estate (i.e. the family) would then have been able to receive the monies and start supporting the child with the intended funds.

We see these situations arise all the time, but with careful planning and good advice that is surprisingly affordable you can ensure that you are looking after the most important people in your life now and always.

If you would like to know more contact us at The Advisers Group on (02) 9809 1777 email [info@lifetimeadvisers.com.au](mailto:info@lifetimeadvisers.com.au) or [www.lifetimeadvisers.com.au](http://www.lifetimeadvisers.com.au). Lifetime Advisers Pty Ltd is a corporate authorised representative 315342 of Lionsgate Financial Group Ltd AFSL 342766.

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## A Big Welcome To Lifetime Advisers – New Sponsor

Lifetime Advisers are supporting the provision of free information on this web site by placing an ad on the SMSF page <http://www.bantacs.com.au/smsf.php> SMSF booklet. Please support the people that support us. They have also contributed the article above to this newsflash.

## Tax Return Deadline - 15<sup>th</sup> May is Fast Approaching

The 15<sup>th</sup> May is the absolute deadline for lodgement of 2011 income tax returns. If you haven't already lodged please don't leave it any longer to get your information to us as many clients will do the same thing.

## Where is Julia?

Home to stay for a few months in SEQ. At least until the cold weather drives me further north.

## Ask BAN TACS

For \$59.95 at [Ask BAN TACS](http://www.bantacs.com.au) you can have your questions regarding Capital Gains Tax, Rental Properties and Work Related Expenses answered. We will include ATO references to support our conclusion.

## What Is New on [www.bantacs.com.au](http://www.bantacs.com.au)

Want more? Please go to [bantacs.com.au/publications.php](http://bantacs.com.au/publications.php) for back issues of newsflash or download our free booklets where past newsflash articles are collated according to their topic.

With the [forum](#) and the [Ask BAN TACS Notice Board](#) the information on the site changes daily but here is a list of significant changes in the past couple of weeks:

**Askbantacs** - One askbantacser has been kind enough to allow their question to be published on the notice board. It covers many of the issues with claiming repairs and improvements to a property after the tenant has moved out <http://www.bantacs.com.au/QandA/index.php?q=374>

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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.