NEWSFLASH

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BAN TACS Accountants Pty Ltd is a CPA Practice

Issue Number: 272 Pages: 4 Date: 1st July, 2013

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

Happy New Year!

Column by Noel Whittaker

A huge amount of assets are going to be transferred to the baby boomers over the next 20 years as their parents die. This is why it is important to understand the capital gains tax treatment of assets on death.

Death itself does not trigger capital gains tax – it merely transfers the liability to the beneficiaries who will not be liable for capital gains tax until they, themselves, dispose of the bequeathed assets.

Recently I had a question from the executor of a deceased estate. He asked what were the advantages and disadvantages of distributing the shares in specie or of selling the shares and distributing the cash proceeds.

There is no simple answer because the best strategy depends on the financial position of each of the beneficiaries. For the first three financial years after death the estate is taxed like an individual with the usual personal tax thresholds. If the shares are sold in that time the estate will pay capital gains tax, but if the shares are transferred in specie to the beneficiaries the capital gains tax liability will be deferred until the beneficiaries dispose of them.

This is why the beneficiaries and their accountants should confer to decide who wishes to retain the shares and who wishes to dispose of them.

It will then be a matter of which strategy saves the most tax – cash them in now and have the estate pay the tax, or transfer them and let the individual beneficiaries pay the tax. A major benefit of shares is that they can be sold in part so the transactions can be tailored to each beneficiary's individual situation. Property does not have this unique benefit.

Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: noelwhit@gmail.com.

Let's Just Check Your PAYG Summary

Before you see your Accountant it is worth checking that your employer has put the right figures in your Reportable Fringe Benefits box and the Reportable Superannuation Contributions box.

Reportable Fringe Benefits Box – The gross up amount for fringe benefits appearing in this box is 1.8692 yet in most cases when calculating the FBT your employer has to use a gross up rate of 2.0647. If you know the base value of the fringe benefit you have received then multiply it by 1.8692 and compare it with the amount appearing in this box. Further, if the amount in this box is less than $3,738.40 then it is incorrect as fringe benefits of less than $2,000 in total are not reportable, multiply this buy 1.8692 and you get $3738.40. Note Centrelink will multiply your reportable fringe benefits by 0.535 (in other words halve it) before adding it to your income for their purposes.

Reportable Superannuation Contributions Box - This box should not include any superannuation contributions your employer is required to pay for you under the super guarantee or under your award. If this box contains more than the amount you salary sacrificed, then ask questions.

Is It Worth Collating Your Medical Expenses This Year?

With the new restrictions on when you can claim a medical expenses tax offset in your 2013 tax return it may not be worth the effort of getting them all together for your Accountant. Certainly if they exceed $2,120 and you are single and your income is under $84,000 or you are a family and your income is under $168,000 then it is worth the effort. If they are going to add up to less than $2,120 don't bother. For all those in between here is the fine print. **Note:** If you don't claim for medical expenses in 2013 you will not qualify for the offset in 2014 no matter how high your expenses.

First you need to calculate your adjusted taxable income for rebate (ATIFR) purposes as follows:

+$____________ taxable income,
+$____________ reportable superannuation contribution (usually salary sacrifice),
+$____________ add back any losses on investments,
+$____________ the reportable fringe benefit amount on your PAYG Summary multiplied by 0.535,
+$____________ foreign income (not already included in your taxable income above),
+$____________ tax free government pension,
- $____________ and *deduct* any amount of child maintenance you pay.

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If you are single, and if your ATIFR is less than $84,000 a year, you are entitled to a tax offset of 20% of your medical expenses that exceed $2,120. If your ATIFR is more than $84,000 a year, you are only entitled to a tax offset of 10% of your medical expenses that exceed $5,000.

If you are a member of a family, and the combined family ATIFR is under $168,000 a year, you are entitled to a tax offset of 20% of your medical expenses that exceed $2,120. If the combined family ATIFR is above $168,000 a year, you are only entitled to a tax offset of 10% of your medical expenses that exceed $5,000. A family combined ATIFR includes only the two parents ATIFR and does not include any income children receive. Whether you are a member of a family or not is determined solely on your status at the 30th of June 2013. Note that a family can include one adult as long as there are children.

***Unusual medical expenses that qualify for the tax offset*:**

In case Q21 84 ATC 77 an allergy to cow's milk was considered an illness. Accordingly, because the milk substitute was prescribed by a doctor and purchased from a chemist it qualified towards the medical expense tax offset. But make sure the milk substitute is purchased from a chemist and the doctor makes a file note that it is recommended (IT 2146)!

Therapeutic treatment also qualifies if it is prescribed by a doctor. The doctor must name the therapeutic practitioner and specify the treatment. Examples of this would be chiropractors, osteopaths, masseurs, speech therapist and dieticians.

Booklets Updated

The latest Newsflash articles have been transferred into their relevant booklets which are available on **www.bantacs.com.au/booklets.php** Soon, we will start to rationalise these booklets and remove out of date articles. It will be a huge job. If for any reason you want to keep a complete copy of all the articles you should now down load the booklets that interest you.

Changes To Qld Workcover for Contractors

From the 1st July, 2013 the Queensland definition of worker for Workcover purposes will be the same as the ATO's definition of who is not considered a contractor.

This means that if the contract involves a substantial supply of equipment in addition to your labour you will not be covered under the work cover policy of the entity you contract to. Examples would be supplying a truck, bob cat or taxi.

You will also not be covered even if the contract is substantially for your labour but you are paid to produce a result. This generally means you have to rectify defects at your own expense and can sub contract.

For a quick test on when the ATO considers you a worker as opposed to a contractor go to www.ato.gov.au/content/00095062.htm?alias=employeecontractor
For more detail go to the ATO ruling at
www.law.ato.gov.au/atolaw/view.htm?Docid=TXR/TR200516/NAT/ATO/00001&PiT=99991231235958

Inflation the Sleeping Giant

Holding your wealth in term deposits may provide a guarantee against market risk (the movement of the market up and down in value), but investors should also give some thought to the risk of inflation when looking at their investment strategy. It isn't deducted from your investment balance, and while it might rate a mention on a news bulletin every now and again, its effects on investments are not made as public as falling markets, as happened with the GFC. Instead, we only come to know and understand this when it is all too late – when its effects are felt in our future balances and the income it generates against what are our future costs.

For Example

Say you estimate you need $50,000 to meet your living expenses (in today's dollars) and this is the standard of living you want to maintain in retirement. An investment balance of $835,000 returning 6% will generate that income amount. But twenty years from now, with inflation running at an average of 3% (the average over the last ten years) your equivalent living costs will at that time be $90,000. With the same 6% investment return you need a lump sum of $1,500,000 to generate your income.

Table – Inflation and the long term

The table below shows what income and lump sums might need to be generated should we continue to experience inflation at 3%.

Today's Income	Equivalent Income in 20 Years	Lump Sum required @ 6%	Equivalent Income in 30 Years	Lump Sum required @ 6%
$50,000	$90,000	$1,505,000	$121,000	$2,022,000
$75,000	$135,000	$2,257,000	$182,000	$3,034,000
$100,000	$180,000	$3,010,000	$242,000	$4,045,000

Expats Watch Out

Apparently buoyed by success in the courts the ATO is cracking down on Australian citizens working overseas who claim to be non-residents for tax purposes. It should be very easy for them to spot you via your passport. They are apparently concentrating on countries where the tax rate is considerably lower than Australia.

The ATO are also monitoring transfers of funds from overseas into Australian bank accounts.

Newsflash 268 contains an article on one of the ATO's successful cases.

Check Lists Updated For 2013

The mail in return forms and check lists to help you get together what you need to have your tax return done have been updated for 2013. The Checklist is available at www.bantacs.com.au/tools.php
Mail In return forms are available at www.bantacs.com.au/mail-in_tax_returns.php

The Annual Paper Fest

If you are feeling less than enthusiastic about getting your records together, according to the Sydney Morning Herald you are not alone. It reports that the Dick Smith Productivity Survey found:

"One in five small business people would rather clean the workplace toilet than complete their annual tax Return. Another 22 per cent would be happier giving the office windows a spruce-up and 15 per cent would elect to buy their workers lunch for a month."

In our experience it is not so much the tax return as finding all the relevant documentation so maybe the New Year's resolution should be to keep proper records right from the start. We have a couple of spread sheets available on our web site that can help you.

The Property Tax Return Worksheet - www.bantacs.com.au/shopping_property_spreadsheet.php
CGT Calculator - www.bantacs.com.au/shopping_property_cgt.php
Diary Template – Right down the bottom of this page www.bantacs.com.au/shopping_calculators.php

Our Affiliates

If you are looking for advice on insurance, loans, financial planning and property acquisitions it is important to know you can trust the advisor. On our affiliates page we profile the people we trust. www.affiliates.bantacs.com.au/index.php

Where is Julia?

She will be heading to Sydney in a week's time, for two weeks then heading north to Mackay.

Ask BAN TACS

For $69.95 at Ask BAN TACS, www.bantacs.com.au/ask-bantacs.php, 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. No appointment necessary! You should receive an answer within 2 days.

Winning Property Tax Strategies – The Book

Once again a brilliant combination of Noel Whittaker's easy reading style with Julia Hartman's mind numbing attention to detail. Lots and lots of new stuff, plus updated basics for the first time reader so it is much bigger, 300 pages but still the same price. New chapters including young investors, SMSFs, renovators, granny flats, investment and budgeting strategies, fires and floods, mass marketing spruikers, commercial properties, subdividing and development. You can also purchase it online by going to www.bantacs.com.au/book_winning-property-tax-strategies.php The cost is still a low $29.95 plus $5.95 postage – tax deductible of course!

What Is New on www.bantacs.com.au

Want more? Please go to www.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. There are over 30 topics, for example How Not To Be A Developer, Claiming Your Trip Around Australia As A Tax Deduction, Claimable Loans, Rental Properties, Overseas, Fringe Benefits Tax, Claiming a Motor Vehicle, GST etc.

One very generous askbantacser has allowed their question and answer to be placed on the notice board. www.bantacs.com.au/QandA/index.php?xq=463 Is about travelling around Australia doing locum work, including discussions on buying the vehicle and van in a company or trust. It also covers a discussion on any travel restrictions i.e. routes taken; to ensure it remains tax deductible.