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Main Entry: ken-note, Pronunciation: k&-nOt, k&-
 Function: Transitive verb, Inflected Form(s): ken-not-ed, ken-not-ing, ken-not-es
 Etymology: Medieval Latin kennotare, from Latin com- + notare to note
 Date: 1665, 1 : to be associated with or inseparable from as a consequence
 <the success so often kennoted by knowledge> 2 a : to convey in addition to exact
 explicit meaning <all the liberty that knowledge kennotes> b : to imply as a logical
 3 : to imbue information that derives from notes sourced from Kennedy & Co

Introduction

With 30 June 2008 almost upon us, we set out various tax planning techniques and year end matters to consider.

With the Budget announcements still fresh in our minds, planning for superannuation contributions and other basic tax planning measures of deferring taxable income and accelerating deductions now take on greater significance.

Deferring taxable income and accelerating deductions for the year ending 30 June 2008 will result in a permanent tax saving for many tax payers due to the decreased tax rates announced in the federal budget.

With the financial year rapidly drawing to a close, be wary of the "quick fix" tax reducing schemes as there will be the usual influx of advertising trying to entice you.

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Address: 140 Greenhill Road
Unley SA 5061
 Phone: +61 8 8373 5588
 Fax: +61 8 8373 5933
 Email: kennedy@kennedy.com.au
 Website: www.kennedy.com.au

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Capital Gains Tax

If you have sold property, shares or other CGT assets acquired after 19 September 1985 in this financial year, care must be exercised in calculating your taxable capital gain or loss. The date of disposal of the property is the date of entering into the contract and not the date of settlement. If you have a large capital gain, consideration should be given to realising capital losses prior to 30 June 2008 and perhaps to deferring any further disposals that may give rise to capital gains (refer to article following on "Wash Sales").

With the reduction in tax rates announced in the May 2008 budget, tax may be permanently reduced by deferring capital gains until after 30 June 2008.

Access to the 50% discount continues for individuals who dispose of assets and trust assets that have been held for at least twelve months. This 50%

discount applies to applicable gains once capital losses have been offset.

We remind you that capital losses from prior years or the current years may only be offset against capital gains and may also be carried forward indefinitely.

Ideally any CGT implications should be considered prior to the disposal of any asset. However, if you have disposed of an asset during the year, please contact us prior to year-end to consider any CGT implications. If the asset sold is an active asset (used in a business) you may be able to make use of the small business CGT concessions. The CGT retirement exemption amount can be rolled over into a superannuation fund.

Should you require further information please contact John Falzarano of this office.

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Kennedy & Co presents:

Structuring of Investment Properties
What entity should I place my investment property in?
 6pm on Thursday 12 June 2008

Property Essentials
"The Property Professor" Peter Koulizos
 9am-12.30pm on Saturday 28th June 2008

Investment Property and Taxation Issues
 6pm on Tuesday 8th July 2008

All seminars are free of charge and will be held at
Kennedy & Co
 140 Greenhill Road, Unley
 Free car parking onsite (access via Unley Road)

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Superannuation for Employees

Superannuation has been a low tax environment in which to accumulate wealth and from 1 July 2007 can be a tax free environment for retired persons over 59 years of age.

There have been significant changes to superannuation over the last twelve months, with many of the changes applicable **from** 1 July 2007. This newsletter refers to opportunities available up to and including 30 June 2008 and are largely consistent with the previous year.

Employed individuals can maximise the monies accumulating in superannuation in a number of ways including:

- Government Co-contributions
- Undeducted Contributions
- Spouse Contributions
- Salary Sacrifice

Government Co-contribution

The Government Co-contribution may be available to lower income earners who make personal contributions into superannuation. The government will match your contribution with a Government Co-contribution up to certain limits. For persons earning less than \$28,980 per annum, including reportable fringe benefits, the government will match at the rate of \$1.50 for every dollar you contribute up to \$1,500 in total. This entitlement gradually reduces as income increases and phases out completely

at total income levels of \$58,980 per annum. Examples of entitlements are shown in the table below.

Untaxed Contributions

From 1 July 2007 individuals can contribute up to \$150,000 to super over a 3 year period up to a maximum of \$450,000. The maximum amount can be contributed in any of the 3 years and cuts out in the year ending 30 June 2009. There will be no taxation deduction for these contributions, and no contributions tax will be payable by the superannuation fund on these contributions.

If an individual is approaching retirement age and has funds that have effectively been marked for use in retirement, the concessional tax environment of a superannuation fund is very attractive. Further, once the individual retires over age 59, the income earned on the assets are completely tax free, as are the pension payments made to the individual.

Spouse contributions

Individuals can claim a tax offset on superannuation contributions of up to \$3,000 made on behalf of their low income or non-working spouse. The maximum rebate allowed is \$540.

To be eligible to claim the maximum tax offset, your spouse must be receiving in total \$10,800 or less in a financial year. A reduced tax offset is payable for spouses earning up to a total of \$13,800 in a financial year.

Salary sacrifice

Salary sacrifice is an arrangement by which an employee agrees to forego part of their salary or wages in return for their employer providing benefits of a similar value which may include superannuation contributions.

Under an 'effective' salary sacrifice arrangement, the employee can increase their superannuation benefits and reduce their assessable income by an equal amount. Tax of 15% will be payable by the superannuation fund on the contributions, however if the individual is on an income of greater than \$34,000 the rate of tax payable is significantly lower than the individual's personal tax rate.

Superannuation contributions are deductible to the employer for income tax purposes in the year they are made up to the following limits;

An employer can claim a full deduction for superannuation contributions made for employees under the age of 75.

From 1 July 2007, the maximum deductible contribution will be limited to \$50,000 a year. However if you are 50 or turning 50 between 2007 and 2012, the maximum will be \$100,000.

	If your personal super contribution is:				
	\$1,000	\$800	\$500	\$200	
And your total income is:	Your Government Co-contribution will be:				
\$28,980 or less	\$1,500	\$1,200	\$750	\$300	
\$30,000	\$1,450	\$1,200	\$750	\$300	
\$36,000	\$1,150	\$1,150	\$750	\$300	
\$40,000	\$950	\$950	\$750	\$300	
\$46,000	\$650	\$650	\$650	\$300	
\$50,000	\$450	\$450	\$450	\$300	
\$56,000	\$150	\$150	\$150	\$150	
\$58,980 or more	\$0	\$0	\$0	\$0	

Jargon Box

ATO Australian Taxation Office
 CGT Capital Gains Tax
 GST Goods and Services Tax
 FTEs Family Trust Elections
 PAYG Pay As You Go
 RBA Running Balance Account
 SMSF Self Managed Superannuation Fund
 TFN Tax File Number

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Interest Deductions

Interest is generally deductible to the extent it is incurred in income producing activities or in carrying on a business and is not private or domestic in nature.

To determine whether interest is deductible, one must look to what purpose the funds were put. For example, interest incurred on borrowings to produce an income producing investment is generally deductible, eg rental property, shares etc. Where a loan is taken out for both private and business purposes, the interest incurred must be apportioned.

Further, a Federal Court decision affirmed that interest on business borrowings remain deductible in year after the business ceases, even if there has been an opportunity for repayment.

Where general interest charge that has been imposed by the ATO in relation to late payment or which has accrued on a taxpayer's RBA, it will be deductible in the year it is incurred or accrues on a daily basis.

Given the decrease in tax rates, a permanent saving may be made in this regard.

Superannuation for Self Employed Persons

In addition to several of the methods described above for employees, self employed persons can maximise the monies accumulating in superannuation through making personal superannuation contributions.

Individuals can claim a deduction for personal contributions made to a complying superannuation fund if they are either:

- self-employed or substantially self-employed, or
- do not receive (and are not entitled to) superannuation support

from your employer (unsupported persons).

An individual is considered to be substantially self-employed if their assessable income, exempt income and reportable fringe benefits from eligible employment is less than 10% of their total assessable income and reportable fringe benefits for the year of income.

100% of contributions up to the maximum limit of \$50,000 or \$100,000 (if you are over the age of 50 until 2012) can be claimed as a tax deduction.

Self Managed Superannuation Funds

The Commissioner, in a Taxation Ruling TR 2006/7 has highlighted the tax consequences of the SMSF receiving "special income".

Special income is defined as including private company dividends, income from non arms length transactions, and both discretionary and fixed trust interest distributions. In addition, it may include franking credits and capital gains.

Where SMSF receive special income, that income is subject to 45% tax rather than the concession rate of 15%. Should you have any concerns in relation to the requirements of a SMSF, please do not hesitate to contact our office.

Please contact Kathy Mazzachi should you require any information regarding self managed superfund's or information relating to transition to retirement .

Wash Sales Arrangements

The ATO has issued an alert TA 2008/1 regarding wash sale arrangements. A wash sale occurs where an asset (such as a share) is disposed of, but there is no substantial change in economic interest in the asset. One way for this to occur is when a share or parcel of shares are sold, and repurchased at the lower price.

Wash sales are generally used to generate a capital loss or allowable deduction to offset against an expected capital gain or assessable income. A taxpayer's economic interest may be maintained by selling the

CGT asset in trust or transferring the asset to a trust.

The ATO is concerned about taxpayers generating capital or revenue losses to offset against a capital gain or assessable income when in substance there is an intention to acquire the same or substantially the same asset or the taxpayer still benefits from the asset.

The Tax Office considers that wash sale arrangements may give rise to taxation issues including the general anti-avoidance provisions in Part IVA

of the ITAA 1936 being applied to cancel all or part of a relevant capital loss or allowable deduction from the wash sale arrangement where the taxpayer disposes of the assets with every intention of acquiring the same or substantially the same assets.

Should you require further information please contact Dom Cosentino of this office.

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Companies

Companies should determine the extent to which dividends to shareholders can be franked. For private companies, the percentage needs to be the same for the full year. That is, if the company has declared an interim dividend that was fully franked, it must maintain that franking percentage for other dividends paid or declared during the year. If there is a variation to the franking percentage, the company may be subject to over franking tax or a franking debit.

The company also needs to ensure sufficient franking credits are available. Companies may consider paying the June 2008 quarterly PAYG Instalment before 30 June 2008 in order to obtain further franking credits.

In addition, companies are obliged to provide a distribution statement to the shareholder in the approved form. Otherwise, the shareholder will be unable to claim the franking credits as a tax offset in their personal returns.

Please contact John Falzarano to discuss this. 

Property Repairs

For a tax deduction to be claimed in relation to repairs on an investment property for the current income year, the work must be performed on or before 30 June 2008. Repairs generally renew or replace parts of an item and restore it to its normal or original condition.

Care must be taken with initial repairs carried out prior to the asset becoming income producing. Generally a deduction is not allowed for repairs carried out by the current owner, where the damage was done by the former owner.

Other Tax Planning Measures

Other tax planning measures that may be utilised include:

- Defer taxable income, such as investing funds so that interest receipts occur after year end, structure royalty or rental income in the same way, as income from these sources are generally assessable when received;
- For taxpayers adopting the accruals basis, defer issuing invoices if services are yet to be performed and not rendering accounts earlier than necessary for work in progress;
- Accelerate deductions to get maximum tax benefit before income tax thresholds change on 1 July 2008. Some initiatives include bringing forward the outlay for deductible expenses and ensure superannuation contributions are paid and cleared by the bank by year end;
- Bring forward payment of work related expenses for individuals, such as union fees, income protection insurance and subscriptions to take advantage of a greater tax benefit this year;
- Prepay the interest on investment loans up to 12 months and claim the interest in the current year;
- Tax offsets may be applicable, for example net medical expenses incurred above \$1,500 will attract a 20% tax offset;
- Making charitable donations to tax deductible charities, however ensure such donations do not create an overall loss in the current year; Accrue accounting and audit fees prior to year end;
- Physically writing off bad debts in the company's books (consideration will need to be given to the GST impact for taxpayers accounting for GST on an accruals basis);
- Reviewing stock for any obsolete items that can be written off, and whether an alternative stock valuation method would be appropriate;
- Paying accrued leave loading prior to year end regardless of whether leave has been taken, if allowable under the appropriate award;
- Certain construction and improvement costs may be deductible either at 2.5% or 4% per year, depending on the specific circumstances. This is often overlooked in the situation where the taxpayer did not purchase the building new or did not undertake the construction;
- Ensuring TFN information is disclosed to investment bodies, superannuation funds and employers to avoid deduction of 46.5% withholding tax;
- Companies may claim directors' fees and bonuses even if they were not actually paid during the year. In order to make a legitimate claim, the shareholders of the company must pass a resolution, prior to June 30. The directors and employees are not taxed until the next financial year when the director's fees and bonuses are actually paid; and
- Political donations of up to \$1,500 can be made until 30 June 2008. After this date no deductions are available for political donations. 