



Welcome to the 7th edition of our Client newsletter. We hope you find it interesting and instructive. After a trying start to the year for many, we hope this publication finds you well on your way to recovery and achieving your business and personal financial goals.

This edition of the newsletter provides an informative and concise summary of some of the applicable outcomes from the 2011-12 Federal Budget. We trust the synopsis will keep you abreast of changes that may affect your business and personal situations.

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2011-12 Federal Budget

The Budget was fiscally tight, designed to return the budget to a surplus in the 2012-13 financial year, despite the impact of recent natural disasters. Outlined below are the tax and superannuation highlights.

Individuals and families:

- The rebate for dependent spouses aged less than 40 will be phased out to help encourage more Australians into paid employment;
- The government will limit the ability of minors (children under 18 years of age) to access the low income tax offset to reduce tax payable on their unearned income, such as dividends, interest, rent, and other income from property, with effect from 1 July 2011;
- The amount of the low income tax offset that is delivered to low and middle income earners through their regular pay during the year will be increased from 50% to 70% of their total entitlements. The remaining 30% of their benefit will still be paid as a lump sum on assessment of income tax returns;
- The Government will abolish the Entrepreneurs' Tax Offset, with effect from the 2012-13 financial year;

- From 1 July 2011, self-education expenses will no longer be deductible against all government assistance payments;
- From 1 July 2011, families in receipt of Family Tax Benefit Part A will be eligible for an advance of up to 7.5%, up to a maximum of \$1,000, of their annual Family Tax Benefit Part A entitlement;
- From 1 January 2012, the eligibility for Family Tax Benefit Part A will be limited to children up to the age of 21 years.
- From 1 January 2012, the Government will reduce discounts applying to payments made under the HECS scheme. The discount available to students electing to pay their student contribution up-front will be reduced from 20% to 10%. The bonus on voluntary payments to the ATO of \$500 or more will be reduced from 10% to 5%.

Superannuation:

- A higher concessional contributions cap will apply for those aged over 50 with superannuation balances under \$500,000 from 1 July 2012;
- Employees will receive information on their payslips about the amount of superannuation paid into their accounts;
- Superannuation funds will no longer be able to treat certain assets as trading stock. This measure will ensure gains or losses on specified assets (primarily shares, units in a trust and land) are subject to capital gains tax;
- The freeze to the indexation of the income threshold for superannuation co-contribution purposes will be extended for an additional year to 2012-13;
- The pension drawdown relief that has been provided over the last three years will be phased out. Minimum payment amounts for pensions will be reduced by 25% for 2011-12 and will return to normal in the 2012-13 financial year.

Small businesses:

- The Government will allow small businesses to claim up to \$5,000 as an immediate deduction for motor vehicles. The remainder of the motor vehicle value will be pooled in the general small business pool and depreciated at 15% in the first year and 30% for subsequent years. This measure has effect for vehicles acquired from the 2012-13 income year.
- The Government will reform the current 'statutory formula' method for determining the taxable value of car fringe benefits by replacing the current statutory rates with a single rate of 20% that applies regardless of the distance travelled. This reform will apply to new contracts entered into after 10 May 2011, and will be phased in over four years.



Government to Review Excess Superannuation Contributions Tax

Following increasing calls from tax payers and the tax industry, the Government has announced it will commission a review of the excess contributions tax rules.

As part of the 2011 Federal Budget, the Government announced that it will provide eligible individuals with the option to have excess concessional contributions taken out of their superannuation fund and assessed as income at their marginal rate, rather than incurring excess contributions tax.

This measure will apply where:

- An individual has made excess concessional contributions of up to \$10,000 in a particular year;
- The breach is in respect of the 2011-12 financial year or later; and
- It is the first year, commencing from 2011-12, in which a breach occurs.

Tax-Friendly Super Sacrifice can Set Traps for the Unwary

Salary sacrifice is a popular way of contributing to superannuation as it reduces your taxable income as it is paid from pre-tax salary.

Salary sacrifice into superannuation attracts a 15 percent contributions tax.

Employer (concessional) contributions include the 9 percent super guarantee payments and the amounts salary sacrificed into superannuation. Currently, the annual concessional contributions caps are \$25,000 if you are aged under 50, and \$50,000 if you are aged over 50.

The penalty for exceeding the cap is a 31.5 percent tax rate on top of the standard 15 percent contributions tax, resulting in a combined tax rate of 46.5 percent.

There are traps with salary sacrificing into superannuation that you need to be aware of:

- If you choose to salary sacrifice, your employer is entitled to make super guarantee contributions based on the reduced salary and the sacrificed contributions can count towards the super guarantee obligation; and
- There is no legal obligation for an employer to offer salary sacrifice to its employees. It is entirely at the employer's discretion and is an arrangement between the individual employee and employer.



Have You Considered Managing Your Own Super?

Self Managed Super Funds (SMSF's) open up a whole new world of investment opportunities for your Retirement Savings, such as:

- Direct Residential Property
- Commercial Property
- Shares

But what if you don't have enough money in Super to buy property?

SMSF's are now permitted to borrow money, however a number of strict criteria need to be met.

To find out if this strategy may be right for you, please contact our office on (07) 5462 4772.

How to Inherit a Financial Disaster

Many of us are unaware that our superannuation can comprise a significant proportion of our net wealth. It is therefore critical for us to consider 'how much would it be worth if I die and who will benefit?'

Surprisingly, we often hear that an individual does not have a will or a binding death benefit nomination directing the trustees of his/her superannuation fund to pay their superannuation and any death benefit proceeds in a particular way. In this case, no-one has any idea what he/she wanted to happen to their estate in the event of death.

It is crucial for everyone over 18 years of age to not only have a will, but to consider whether they should give a binding death benefit nomination to the trustee of their superannuation fund.

Binding death benefit nomination –

Depending on the terms of the superannuation fund, unless there is a binding death benefit nomination the trustees of the fund can pay a death benefit to the deceased's executors (if there is a will), an Administrator if there is no will, the deceased's wife, any of his/her children, or anyone who is financially dependent on the deceased.

Everyone is at the mercy of the decision of the trustees of the superannuation fund. The decisions that are made will undoubtedly upset some of those involved.



Death benefit tax –

Death benefits will only be tax free if they are paid to a person who qualifies as a dependent of the deceased for tax purposes. This would include a surviving spouse or a child under 18 years of age, or to an estate where the Commissioner of Taxation is reasonably satisfied that the benefits will pass to a tax dependent under the terms of the will.

Every year assets valued in the billions pass from one generation to the next. What can be done to ensure that you don't leave behind a financial mess?

Firstly, make a binding death benefit nomination when you are completing an application to become a member of a superannuation fund. Secondly, put in place a clear succession plan. Without these documents in place, there can be very sad consequences, particularly unanticipated loss through tax, divorce and bankruptcy.

Paying Dividends out of Private Companies

The rules on payment of dividends have changed. The old accounting rule stated that directors of a company could only pay dividends out of retained profits. If a company reported a loss, even from a 'non-cash' loss, such as an asset being written off, the company could not pay its shareholders a dividend.

Now, directors must satisfy three tests:

1. The assets of the company must exceed its liabilities and the excess must be sufficient for the payment of the dividend;
2. The payment of the dividend must not prejudice the company's ability to pay its creditors; and
3. The payment of the dividend must be fair and reasonable to all the company's shareholders.

These rules apply equally to small proprietary (private) companies.

Companies can pay dividends up to the value of their net assets. A positive outcome brought about by the changes will mean that company directors will be able to pay out more consistent and smoother dividends.

To satisfy the assets and liabilities test, the Balance Sheet must be prepared in accordance with accounting standards. This condition applies to small proprietary companies that are not by law required to prepare financial statements.

Companies may need to update their constitutions if the rules and regulations of the company have been drawn up in reference to the 'old profits test.'

Gearing Up for Off-Farm Investment

Most primary producers would like to expand their operations given the opportunity. However, the rise in property prices and interest rates in recent years has made this almost impossible, even though your net equity may be higher.

With interest rates continuing to rise, there may be a large gap between net return and satisfying your bank interest payments. This gap has to be funded from current operations, off-farm income or savings.

Therefore, the question needs to be asked – is borrowing large amounts to expand the wisest use of your capital?

Before making a decision, you need to consider the options available to you. It is important to remember that primary production land is a business asset which you will have to actively operate to generate a return.

Compare this to other passive assets such as rental houses, commercial property or share portfolios.



For example, you are considering buying another farm for \$2 million. This may provide a return as low as \$20,000 - \$40,000 per annum, after a lot of hard work, stress trying to service the debt, struggling to find labour, losing production from exceptional circumstances etc.

Perhaps you could invest the same funds in a portfolio of off-farm investments such as residential or commercial rental properties, share portfolios, or term deposits. Let's assume an overall cash return of 5 percent or \$100,000 per annum (with no fences or waters required to be checked!).

Over time the portfolio should grow in value and increase your wealth. Building such assets will help with your succession planning by providing an income source for retirement without putting stress on the farming operation.

Additionally, estate planning is made easier by having off-farm assets to provide for the non-farming family members.

Finally, having good quality off-farm investments may also place you in a better position to expand your farming operation.

Team Profile



Kirsty Picking is the Business Manager and Undergraduate Accountant at Conrad Carlile Pty Ltd. She has been with the firm for 3 years. Prior to this she worked for 16 years with Qantas Airways in various roles in Brisbane and Melbourne. She is currently completing her final year of a Bachelor of Commerce (Accounting and Business Law). Whilst her University studies do not afford her much free leisure time she has a keen appreciation of fashion, textiles and interior design.

We at Conrad Carlile are fully committed to the growth and development of our firm. It's only when we grow that we can continue to offer you a more diverse range of services to support you in all areas of your business, financial position and future security. If you know of any business owners, family or friends that may be able to benefit from our services please do not hesitate to refer them to our team.

The information in this newsletter is general commentary only and should not be considered advice. You should not act solely on the basis of the material contained in this newsletter. We recommend that you seek our formal advice prior to acting. Liability limited by a scheme approved under Professional Standards Legislation.