

Never ending story – more tax change from 1 January

If this potential tax change goes ahead, your decisions pre and post 1 January could mean several thousand dollars. Contact Collins Hume in December on 02 6686 3000 to discuss how the change affects you.

Late last month the Government released draft legislation repealing the Minerals Resource Rent Tax, or mining tax as most of us know it. While the repeal of the mining tax is not likely to have a direct application to many small business and individual taxpayers, the Government also plans to abolish a number of other tax measures that will have a broader impact.

The changes are not certain until they are passed by Parliament but there appears to be limited opposition to the repeal of the mining tax and the other associated tax measures. Here's what will change if and when the measures are repealed:

■ Immediate deductions reduced for small business entities (SBEs)

Currently, small business entities (generally entities with a turnover of less than \$2m) can claim an immediate deduction for depreciating assets costing less than \$6,500. For example, if a SBE buys a \$4,000 computer, the business can claim an immediate deduction in the same financial year for the full \$4,000. From 1 January 2014 however, this threshold will drop to \$1,000. So, if there are assets you need for your business and cash flow allows, you have until 31 December 2013 to buy the assets you need and use them or install them ready for use.

■ \$5,000 deduction for motor vehicles scrapped

Thinking of buying a motor vehicle for your business? From 1 January 2014, the \$5,000 immediate deduction for motor vehicles purchased by small business entities will be removed. If you are thinking of buying a motor vehicle for your business, you have until 31 December 2013 to claim the \$5,000 immediate deduction.

■ Loss carry-back measures

Loss carry-back measures were only recently introduced and enable companies to offset tax they have paid in previous years against current year losses. The repeal of this measure however means that companies will only be able to use the loss carry-back measures for the 2013 income year. The rules will be repealed from the start of the 2014 income year. Companies late lodging their 2013 tax returns will still be able to utilise the loss carry-back rules for the 2013 income year.

■ Super guarantee slow increase

The superannuation guarantee (SG) percentage was due to increase gradually from 1 July 2013 until July 2019 when the rate reaches 12%. The new measures slow the increase. The SG percentage will be kept at 9.25% for the 2014, 2015 and 2016 financial years. From 1 July 2016, the SG percentage will then rise to 9.5% and then increase by half a percentage point each year until it reaches 12% for years starting on or after 1 July 2021.

■ Low income super contribution

The Government plans to remove rules that currently allow the contributions tax paid on concessional contributions for individuals earning up to \$37,000 to be returned. The changes will apply to concessional contributions for financial years starting on or after 1 July 2013.

■ Income support bonus (ISB)

The Government will remove the ISB which is currently paid twice a year to certain social security recipients. The next instalment of the payment is due to be paid to recipients in March 2014 unless the rules are repealed by then.

■ Schoolkids bonus (SKB)

This tax-free bonus payment will also be removed. The next instalment of the SKB would be in respect of the "test day" occurring on 1 January 2014 unless the rules are repealed by then.

No surprises this Christmas

Boom time or down time, every business needs to manage Christmas well to make a difference to your position in the New Year. Here are our top tips:

■ The scrooge approach to outstanding debtors

Put extra effort into following up debtors. The closer Christmas gets, the more difficult it is to collect debt. If you leave debtors until January, it is almost impossible to collect cash. Traditionally, February is one of the worst cash flow months for business. If you are unsuccessful now, it might be some time before you get paid.

■ Staff management

Staffing is a major cost for many businesses and can run as high as 70% of expenditure. Review your staff rosters and only have the staff available who are absolutely necessary to manage anticipated trading levels. Encourage staff to take their holidays over this period so that they are available during peak trading periods. You can't assume that it will be obvious to everyone who works in the business that a slow trading period equals less staff required. Many team members will have an expectation of continuity if you have not said anything.

And yes, a business can enforce a temporary close down. You can require staff to take leave during a down time but you cannot force them to take unpaid leave. So look now to see if any staff will not have enough leave to cover a forced close down. If they don't, ensure your leave policy allows for personnel to go into negative leave.

■ Stock management

Even very large businesses often have too much cash tied up in stock. Keep your cash as liquid as possible and don't tie it up unnecessarily in stock. Drive down stock in the lead up to Christmas and only order the bare minimum to meet your requirements over the season. Remember to plan for your New Year requirements to ensure that your suppliers have the stock you need available when you need it in the New Year. The number one reason why most Australian's buy online is because they could not find what they needed when they visited a retailer or supplier.

■ Discount only if you have to

A business with a 30% gross profit margin that offers a 25% discount requires a 500% increase in sales volume just to maintain the same position. In almost all cases that's just not going to happen. The result generally is the business will be trading below break-even point and generating losses. Most businesses can't survive for any period of time trading at a loss. You have to compete, but think very carefully about what you are offering the market.



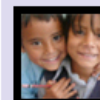
Christmas / New Year trading and giving at Collins Hume

REMINDER that Collins Hume will close for the Christmas / New Year break from 20 Dec 2013 to 6 Jan 2014. Do let us know before then if you have anything that needs our input or attention on 02 6686 3000.

Collins Hume is a business member of [B1G1](#). By providing tools to track the effectiveness of giving, even small businesses are able to make a significant impact simply and effectively through B1G1. Corporate social responsibility is no longer just for big corporations. And within B1G1's Giving Engine, there are over 600 projects to which businesses can give. It means we can choose **Worthy Causes** to support at various times during the year. The latest status of Collins Hume's giving is as follows:

Our giving impact

749,325 micro-impacts to date



We've given 2,685 great learning tools to children who need them the most

Find us on B1G1



Ballina

97 Tamar Street
PO Box 731
Ballina NSW 2478

Byron Bay

Shop 7B The Bay Centre
6 Lawson Street
Byron Bay NSW 2481

P (02) 6686 3000

F (02) 6686 7854

E mail@collinshume.com.au



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Succession bid not the end of the road for transport business making first foray into SMSF borrowing

Robert Singh and his wife own and run a successful transport business, servicing the rural growing areas of Australia since 1974.

When their plan to pass down the business to a family member fell through, Robert used the opportunity to repurpose the funds they'd accumulated.

A canny businessman, Robert had had his eye on a potential commercial property he wanted to purchase at a good price. Problem was, it was 4 o'clock in the afternoon and Robert needed to register and bid at auction the next day!

After talking with Collins Hume's Partner Shane Bartrim, they decided a course of action could be to do a Limited Recourse Borrowing Arrangement to secure the property.

"Thanks to the original succession planning we'd done with Shane, we had the money sitting there ready to go," says Robert.

"When it came to being ready to purchase the property at auction, Shane ran the show for me basically – with hardly any notice – and got our ducks in order even as I was on my way to the auction."

Normally we require a longer lead-time to establish the required documents, but Robert's circumstances allowed Collins Hume to put in place and execute all of the necessary documents prior to auction.

As a general rule, if a bank is involved in the borrowing arrangement you would be wise to allow for a longer than normal settlement period, and you should definitely seek loan pre-approval prior to signing any contract.

Uniquely, Robert's own circumstances allowed the transaction to proceed literally overnight. Robert was lending money to their super fund under this arrangement rather than the bank.

"Shane was really good and was available to talk even late at night," says Robert. "He actually talked with the loans manager on my behalf to make sure I was in a position to be able to bid."



Robert did end up getting the property, at a great price, and in the best possible structure for his circumstances.

His latest property acquisition is now working for him and generating a great return.

"Shane is amazing at what he does and what he suggests. He actually came and worked with us on our succession planning when that was going ahead and talked us through the various options we could take, but day to day we do everything over the phone."

The opportunity to invest in commercial property had shed light on what Robert would like to do when he and his wife eventually exit their existing business.

"We are looking to retire from this business some time in the near future, but we'll be talking with Shane about bringing our children in through super to be able to invest in commercial property with us."

Borrowing through super is fraught with danger if it is not done properly, nor is it suitable for everyone. The ability to use this strategy depends entirely on your own particular circumstances, so seek professional advice before deciding to do so.

Santa 'clauses' - 5 festive season problem areas

Honouring Christmas spirit, keeping it in perspective and making it tax efficient!

■ An anti-social media Christmas party

Social media creates whole new ways for your business image to be tarnished by team members not thinking through what they are doing. Social media is such a part of many people's lives that it's a given that if they are having a good time, or someone is doing something silly, a photo is going to be circulated via Facebook, Instagram or some other medium.

And what happens when one employee shares an embarrassing photo of another employee on social media without their permission? In those situations, they don't just damage the company's brand but their colleague's.

Most businesses have a good understanding of the impact of alcohol, sexual harassment, bullying and anti-social behaviour at Christmas parties. It's a good time to remind employees that the staff Christmas party is considered to be the workplace and they need to protect the reputation of the business.

■ Gift giving

In November 2010, Clive Palmer reportedly gave 750 long-term employees of the Yabulu Refinery luxury overseas holidays for two for Christmas. Fifty of his most valued employees received a new Mercedes Benz. Nice.

For the rest of us, we tend to work on a return on investment principle. You want gifts to have an impact for the investment, done in a tax efficient way. Mr Palmer certainly generated impact! When it comes to tax efficiency however, it's likely he received a very large FBT New Year hangover.

So, how do you avoid incurring more tax than you need to at Christmas?

If gifts are for employees, keep the cost below \$300 per person. Gifts need to be ad-hoc so splitting a \$2,000 gift voucher into 10 x \$200 vouchers and giving them to an employee at the end of each month won't fool the ATO. If the gift is ad-hoc and below \$300, the Tax Office considers it to be a minor benefit and, as such, exempt from FBT. Gifts above this level are deductible to the business but FBT applies.

If gifting clients, gifts are deductible as long as it is given by the business with the expectation that the business will benefit (i.e. the gift is given with the expectation of generating revenue). Call us in advance on 02 6686 3000 if you're unsure.



■ Spreading joy – entertaining clients

Entertaining clients at Christmas is not tax deductible. So, if you take them out to a nice restaurant, to a show or any other form of entertainment, then you can't claim it as a deductible business expense nor claim GST credits. It's goodwill to all, but not much more.

■ Taxis and Christmas crackers – the Christmas party dilemma

These days, the cost of taxi fares home from the team Christmas party are often included in your Christmas expenses, even if it's just a backup for any staff that go a bit too far. The simple reason is that your work Christmas party is generally seen by the law to be an extension of your workplace. So, if you have your team Christmas party at an external venue, you are responsible for staff safety at the venue and travelling to and from it as they are there in the 'course of their employment.'

To protect your team and business, make sure there are clear rules around behaviour, the service of cont/...

Santa 'clauses' - 5 festive season problem areas

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alcohol and everyone's responsibilities, bullying, and sexual harassment, and that these rules are enforced at the event. There are far too many cases of violence at or after parties, staff members being sexually harassed or worse, and drink driving, not to be vigilant.

In terms of tax efficiency, taxi travel that starts or finishes at an employee's place of work is exempt from FBT. If the party is not held on your business premises then the taxi travel is taken to be a separate benefit from the party itself and any Christmas gifts you have provided. In theory, this means that if the cost of each item per person is below \$300 then the gift, party and taxi travel can all be FBT free. However, the total cost of all benefits provided to the employees needs to be taken into account in determining whether the benefits are minor.

You can't deduct the cost of your Christmas celebrations for team members unless FBT applies.

■ Clause with a cause

Charity gifts are an increasingly popular form of corporate giving. For tax purposes, you can only claim a tax deduction for donations made to deductible gift recipients (DGRs). If you receive or your client receives anything for the 'donation,' like a teddy bear, biscuits etc, then it's not tax deductible because you have purchased something rather than made a donation.

Sending a child to school, buying a goat, or funding mosquito nets are popular charity 'gifts' particularly for those that just don't need anything. But who gets the tax deduction? Assuming the charity is a deductible gift recipient (DGR), the answer is, whoever's name is on the receipt. Care Australia, World Vision, The Smith Family and UNICEF are just a few charities that offer virtual gift giving options.

Or, in the words of Charles Dickens who said, "I will honour Christmas in my heart, and try to keep it all the year," instead of giving client gifts you can use Christmas to announce that your business is launching a charity giving program. The idea is that for every product or service you sell, you will do something to improve the lives of others. See our **Giving Back** page for inspiration or call us on 02 6686 3000 if you need some specific ideas for your business, including advice on the tax implications of each.



Hidden dangers of salary sacrifice agreements

Haven't reviewed salary sacrifice arrangements lately? These two recent changes should spur you into action:

The first is the increased super guarantee (SG) rate from 1 July 2013. While the 9% to 9.25% increase doesn't *seem* a lot, it can have big impact. The problem is concessional contribution caps.

Take the example of 55-year-old Bill who earns \$160,000 per annum. Before 1 July, his employer paid the SG amount of 9% (\$14,400) and Bill salary sacrificed \$10,600 to use his full concessional cap. From 1 July, he'll need to reduce the amount sacrificed by \$400 or breach his cap.

It seems a minor amount but without this change the ATO will include the excess \$400 contribution in Bill's assessable income, which will then be taxed at his marginal tax rate with additional penalty interest charges. If you have a salary sacrifice arrangement and are close to your cap, the increase to the SG might be enough for you to breach your limits.

The second change relates to the increase in the concessional contributions cap. This financial year, the concessional contributions cap is \$35k for those aged 59+ on 30 June 2013 and \$25k for everyone else. The higher cap will allow an additional \$10,000 to be salary sacrificed into super for those eligible.

Ballina

97 Tamar Street
PO Box 731
Ballina NSW 2478

Byron Bay

Shop 7B The Bay Centre
6 Lawson Street
Byron Bay NSW 2481

P (02) 6686 3000

F (02) 6686 7854

E mail@collinshume.com.au



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