The Strategist September 2011

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Collins Hume

ACCOUNTANTS
BUSINESS ADVISERS

Juggling tax losses

When asked if it's possible to offset a loss in one company against the profit in another, we answer that there is no automatic way of offsetting losses and profits between your companies

Most people try to manage a situation like this by putting through charges between the companies after year end (for example, a charge from the profit making company to the loss making company for 'management fees'). This is not an effective strategy and creates a risk position for you.

Each company is an independent entity for tax purposes and needs to account for its tax position separately. This could result in one of your companies having a tax liability and the other having a tax loss which will be carried forward. In this case, the carry forward loss will continue to be available for a future year in which your company derives a taxable income. Providing there is a continuing majority of ownership of the loss company in both the loss year and the year in which you make a profit and seek to claim the loss, then there is no time limit on carrying forward the losses.

In the event that your loss company never made a profit in future years, then it is possible that the losses would be foregone.

One option available for you is to tax consolidate the two companies. Under a tax consolidation the two companies are dealt with as one for tax purposes. This allows you to offset profits and losses between the companies. To tax consolidate the two companies there must be a head company and a subsidiary. The fact that they are commonly owned by the same shareholders is not enough – you need to have a head company in place. If this is your situation then you can elect to tax consolidate the two companies for the 2011 year. If the shareholders are private individuals or held through family trusts then you may need to complete a restructure of ownership first. In this case, tax consolidation will only be available in a future year.

The decision to tax consolidate brings with it a range of requirements; it is not simply a matter of saying that you are tax consolidated. The fact that your accounts may be consolidated for accounting purposes does not mean that you are tax consolidated. Tax consolidation is a specific process that you need to go through and will include the resetting of your cost base for tax purposes.

Tax consolidation makes sense in some situations but is not appropriate for everyone. It comes with an initial set up cost and will place ongoing requirements on you. It does, however, provide a number of benefits.

If this sounds like your situation, let us advise you on the implications of tax consolidation and determine whether it is advantageous for you.

Business plan questions to consider

Organisational matters

When preparing a business plan, consider a wide range of matters relative to the business including:

- Who opens the business premises?
- Is there a security service on the business premises?
- Who does security contact after hours?
- Do you have staff meetings?
- Who has keys to the business premises?
- Are your Work Place Agreements in line with the requirements of the Fair Work Act and the Modern Awards?

Always pleased to see your business plan in train, phone us on 02 6686 3000 for our external input into its viability.

Quote of the month

"I have been a client with Collins Hume for three to four years after a banker and his customers recommended Peter Fowler to me as 'someone who does more than just tax returns'. I had been very specific about my business needs and was screaming out for proactive assistance from an accountant and Peter ticked all the boxes."

Alex Li, Byron Health Foods Distribution

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

We have a duty of care to understand your business needs and issues

Now is a key time to undergo a business health-check as a new financial year is an opportune time to make any necessary changes

It is an especially good time to review the cash flow requirements of your business both present and into the future so that we can take that into account when it comes around to interim accounts preparation.

To do that, Collins Hume have developed a client assessment questionnaire. It's straightforward and, most important, beneficial to you. It is something we are working on with all of our key clients and we would like to invite you to take part in the process. The process is web-based and does not involve financial detail meaning you complete the assessment **online** wherever you are and without us being there.

It begins with us sending you the website link to your client questionnaire, along with a username and password. Once you're logged onto the site, we'll ask you to consider and answer some highly relevant and focused questions.

When you have done that, we report the outcomes to you. Depending on your priorities, our findings highlight key areas where gains might be possible (or indeed where significant downsides can be avoided). We arrange a meeting to discuss your report and to obtain your feedback, and complete the process by drafting an action plan addressing your responses.

Collins Hume's client assessments will roll out in FY12 so keep an eye out for your invitation to complete a questionnaire. Phone us on 02 6686 3000 if you'd like to get yours underway as a matter of priority.

Key aspects to business success

Development priorities – list what you are going to achieve over the next 3, 6 or 12 months as part of your business plan

Business plans for businesses are just as important as maps for tourists. How are you going to know when you get there, if you did not have a plan of where you were going in the first place? One of the key ways of developing a business plan is by conducting isolation planning meetings every 6 months. During these meetings an analysis should be made of:

- What action is required?
- Who is going to do it?
- What is the targeted completion date?

These strategies should be written down and reviewed**,** on a regular basis**,** to ensure that implementation is achieved. **Contact us on 02 6686 3000 if you require any assistance on the development of your own business strategies.**

Surf the Wave to Success!

8 reasons why you and your colleagues should attend

1. **Innovative and progressive business practices** designed by Collins Hume and based on our expertise and acumen. Just undergoing these structured activities as a business owner is worth your investment to attend.
2. **First hand case studies** on what works well and why.
3. **Interactive** workshops to brainstorm and share questions, ideas and thoughts with others.
4. A **balance** of work, lifestyle and great surf. Get the work-life balance you've always dreamed of.
5. **Actionable ideas** to hit the ground running when you return and can implement to achieve tangible results in your business
6. **A relaxed and very different event** with plenty of networking downtime. Let the local surroundings get your creative juices flowing and share your ideas with others for input.
7. Take part in **quality networking** with other progressive business owners. The conference is designed to foster a community of highly progressive business owners.
8. **Recharge** by immersing yourself in the wonderful and hospitable Indonesian culture. Surf some of the world famous breaks that are part of the Telos Island group and take the opportunity to relax.

Call Peter Fowler on 02 6686 3000 to reserve your place this November.

Case Study: Self-funded retirees in great shape to maximise retirement funds and minimise tax with Collins Hume

How many people are sitting on nest eggs yet not making the most of tax planning opportunities available to minimise their tax and ensure their assets are adequately protected

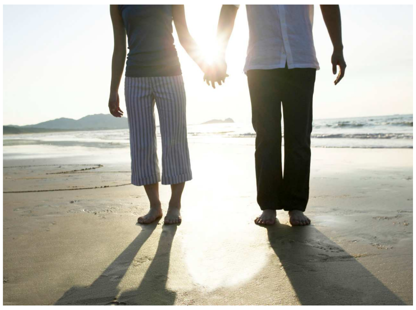
Partner Peter Fowler was recently approached by a couple who were self-funded retirees on the recommendation of their friend. The couple was made aware of Peter's accreditation with SPAA as an SMSF specialist adviser from their friend. They had often wondered if they had received the best possible advice from their current adviser and sought a second opinion to gain specialist input into their affairs.

The result of the 'second opinion' lead to the creation of a strategy devised by Peter to ensure they minimised the tax payable on their income, whilst also maximising their retirement funds. Added to this, Peter was able to ensure the tax payable on their death was minimal and that their assets were adequately protected if anything unforeseen was to happen.

Whilst the couple had no desire to initially change accountants, they recognised that their incumbent adviser had shortcomings when specialist SMSF advice was required, so availed themselves of a specialist opinion and the expertise they were seeking from Collins Hume.

Whilst reviewing and addressing the issues they had initially raised, Peter identified a further tax saving available to them by restructuring their assets to guarantee a tax saving of over $200,000 over the next five years, with additional potential savings to their estate of over $500,000. The key components of Peter's advice were:

- Ensuring they were contributing to superannuation in the most tax effective manner, including the timing of contributions was carried out correctly. This was a key strategy as any differences by delaying contributions – even by one day – could have changed the outcomes significantly
- Structuring their assets correctly to minimise tax upon death, therefore maximising the benefits available to their children and grand children
- Making certain that capital gains tax payable would be nil if they were to sell their investments and land tax was kept to an absolute minimum whilst owning property
- Ensuring that their investments were not available to creditors if any unforeseen circumstances occurred
- Ensuring that they weren't taxed heavily by the ATO for being self-funded retirees



Manage your self-managed super fund with confidence

More than $432 billion worth of assets reside in Australia's SMSFs or approximately 31.9% of the total superannuation pool of assets.

Approximately 2,000 new SMSFs are set up each month with the current average member balance standing at approximately $502,000.

Peter Fowler is a Collins Hume Partner and a SMSF Specialist Advisor accredited by the Self-Managed Super Fund Professionals' Association of Australia.

In this case, Peter's asset protection and estate planning review included a step by step report with recommendations, and assistance with implementation to ensure that everything was carried out correctly.

Peter's report also went so far as enabling the couple to implement his recommendations with other professional advisers to ensure their Will and financial plans reflected the advice that was to be implemented.

Talk with Peter if you'd like a second opinion about your SMSF's set-up or arrangements by phoning 02 6686 3000 or by emailing Peter at [peter.fowler@collinshume.com.au.](mailto:peter.fowler@collinshume.com.au)

TPD insurance premiums through super! What now? And what next?

By Jamie Forster, Strategy Adviser at Elston Assure

Up until June this year, premiums on total and permanent disability (TPD) owned within super funds were typically 100% tax deductible. From 1 July 2011, to receive a 100 per cent tax deduction of premiums paid, trustees must meet the strict superannuation disability benefit definition[1].

There was significant discussion within the insurance industry as to whether 'loss of limbs and sight', 'activities of daily living' and 'own occupation' benefits would continue to receive tax deductions from 1 July 2011.

The Draft Regulations now provide clarification. The Government determined that the 'loss of limbs and sight' benefit, along with the activities of daily living benefit, does not provide any additional risk to the 'any occupation' TPD pricing, so full deductibility will continue. The following table shows the statutory percentages that will apply. However, the trustee may employ an actuary to determine the appropriate deductibility percentage:

Benefit	Deductibility %
TPD any occupation	100%
TPD any occupation with one or more of the following inclusions: **a)** activities of daily living **b)** cognitive loss **c)** loss of limb	100%
TPD own occupation	67%
TPD own occupation with one or more of the following inclusions: **a)** activities of daily living **b)** cognitive loss **c)** loss of limb	67%
TPD own occupation bundled with death (life) cover	80%
TPD own occupation bundled with death (life) cover with one or more of the following inclusions: **a)** activities of daily living **b)** cognitive loss **c)** loss of limb	80%

Members and trustees of super funds should review TPD benefits. It may be necessary to modify benefits, reduce investment returns, or to increase contributions to comply with the more stringent rules that commenced on 1 July 2011. In most super funds, this will only impact members with 'own occupation' TPD. Members with an 'any occupation' TPD definition will be unaffected. If you are unsure or require clarification, phone Jamie Forster on 1300 ELSTON.

[1] *A benefit that is paid to a person because he or she suffers from ill health (whether physical or mental), and two legally qualified medical practitioners have certified that, because of the ill health, it is unlikely that the person can ever be gainfully employed in a capacity for which he or she is reasonably qualified because of education, experience or training.*

PPS register to commence 2012

Federal and various state governments agree to national register of Personal Property Securities (PPS) to commence in early 2012

Personal property to be recorded in the register is any form of property other than land, buildings or fixtures, which form part of that land. It can include tangibles such as cars, art, machinery, crops; as well as intangibles such as intellectual property and contract rights.

A personal property security is when a secured takes an interest in personal property as security for a loan or other obligation, or enters into a transaction that involves the supply of secured finance. An example is when a person borrows money from a bank and offers it as collateral or security for the loan. The bank's interest over the collateral is a personal property security.

The register will be available for searching by secured parties. Other people who wish to search the register can create an account or search as a casual user for which a fee will be charged. Search criteria that can be used include grantor detail or the serial number of certain types of property. Consumer motor vehicles will only be able to be searched by serial number.

If you are securing finance by mortgaging these types of properties, be aware that the details will appear in the Personal Property Securities Register and be available for access Australia wide.