

News

June 2006

Our Partners Are Your Partners



1/2 Million Emails Daily

Apparently the server at IBM Australia transmits around 500,000 emails everyday. Obviously, the business of IBM means a lot of work is done on email. Whilst this would be a lot of productive work performed by email and involving email the management are obviously concerned that a significant amount emails are not work related nor productive.

Management quizzed IBM staff and it was estimated that employees spend up to four hours on email each day. There must be some concern amongst management that productivity is being hurt by time wasted on email. In response IBM has offered counseling and advice to assist employees improve their email habits. There are even dinner vouchers and gold movie passes on offer to staff that can kick the bad habits.

As well as the loss of productive time attributable to private emails, many business owners are concerned that email communication disconnects people and stops them really communicating – by talking to each other. How many emails (or mobile phone text messages) does it take to achieve the same outcomes as a five minute telephone conversation or face-to-face meeting? Most people would agree that personal communication is far more efficient, effective, and offers the benefits of personal contact.

Of course email has its advantages. It is an efficient way to exchange information and send documents or working models. Using the latest technology it is fast, immediate, and convenient. It is an efficient way to make contact with people if you cannot reach them in person. It is easy to leave a message or a short reminder – to one or one hundred people at a time. Consider though the time taken to type your e-mail when a



telephone call may be quicker and more effective. A telephone call is instant, interactive, and an immediate two way communication. There is no waiting for a response if you actually speak with the person. If you do not need a written record of the communication, is telephone a better method of communication? Does a face-to-face meeting have far more impact? A meeting should add a personal touch, there should be improved concentration and focus when you physically get together, and you can read everyone's body language.

Email can be fun... in moderation (like any addiction?). Consider the time you lose each day with junk email including jokes, pictures, movies, competitions, items you must forward to ten friends to enjoy the good luck of the leprechaun, so that Microsoft will send you \$10, and so your friends know you still love them.

Email is a great invention and like any tool the technology can really work for you. Make the most of it to improve your productivity and your communication, save you time, and distribute relevant information. Everyone in business should make use of its advantages and develop good habits to limit any detrimental impacts on productivity.

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Year End Tax

With 30 June fast approaching, can you do anything to improve your year end tax position? Actually, the best time for tax planning is at the beginning – at the start of the year, the start of a transaction, or the start of a new business. Commercial considerations should outweigh any tax driven decisions; however it is worthwhile reviewing your position around 30 June and acting appropriately.

DEFERRING INCOME

When seeking to defer income until the next financial year, be careful not to defer the cash flow significantly (“a bird in the hand...”), such as rendering an invoice on 1 July rather than 30 June.

- ✓ Avoid recognising income before year end for services not yet performed or income not yet derived.
- ✓ For income assessed on a receipts basis such as dividends, rent, and interest, defer receipt until after 30 June if you can reasonably do so.
- ✓ If income is assessed on an accruals basis, consider deferring billings until 1 July. Work in progress is also not assessed until invoiced.

MAXIMISE DEDUCTIONS

Discretionary expenditure likely to come up in the next few months may be paid before year end to be included in this financial year. Review the position of balance sheet items.

- ✓ Review debtors and write off bad debts on 30 June.
- ✓ Realise foreign exchange losses and defer realisation of gains.
- ✓ Bring forward discretionary expenditure – paying 30 days earlier can get the deduction 12 months earlier.
- ✓ Consider prepaying expenses for services due up to 12 months hence (mainly STS taxpayers).
- ✓ Value stock at the lower of cost or replacement value and market value. Scrap stock items that will not be realisable.
- ✓ Review the depreciation schedule, including the useful lives of the assets, and scrap obsolete plant and equipment.

CAPITAL GAINS

- ✓ If you have realised some capital gains in the year, consider realising some capital losses to offset this year.
- ✓ Consider deferring disposal of assets until held for 12 months – a 50% discount applies to assets held for more than 12 months.
- ✓ Remember non-deductible costs may be added to an asset’s cost base.

- ✓ Consider deferring disposal until after year end – a capital gain can be triggered by the contract date, not always the settlement date.
- ✓ Note that not all realised gains will be taxable – there are rollovers, discounts, concessions, and indexation to consider.

Whether or not these items are useful for you depends on a review of your circumstances. There may be other issues to consider such as:

- Non-commercial loss rules – will I reach \$20K in sales? Will my losses be deductible?
- Does my private company have a loan needing documentation or some repayment?
- Am I caught by the personal services income rules?

Talk to your Sothertons partner soon.



CPI Movement

The ATO recently published the latest CPI figures being the ‘All groups’ weighted average of 8 capital cities:

September 2005	149.8
December 2005	150.6

The last calendar year saw the CPI rise by nearly 2.8% to December 2005.

Super Age

Is the preservation age for superannuation still 55?

It is if you are already 46 years old. The preservation age will remain at age 55 if you were born before 1 July 1960. Otherwise, it is gradually increasing to age 60.

In general terms under the current rules, the ‘condition of release’ of preserved benefits is satisfied where you permanently retire from employment after preservation age.

Date of birth	Preservation age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
1 July 1964 – 30 June 1965	60

If you wish to check if your circumstances qualify and you can access your preserved benefits earlier, contact your Sothertons partner.

DESK DIARY

“Aspire not to have more but to be more.”

Oscar Romero

'Simplersuper' Plans To Simplify Superannuation

The Government needs more people to save for their own retirement and be independent rather than relying on the age pension. The May 2006 Federal Budget proposals aim to make the superannuation system more flexible to meet the demands of an ageing population with longer life expectancies. That is, aim to provide people with enough incentive to save for their own retirement. Remember that these are Budget proposals which must be negotiated and legislated yet.

Over 100,000 people aged 60 and over are expected to retire next year and this figure will gradually grow over time. The Government's perception is that a lack of understanding of superannuation causes a lack of confidence in the system. It notes that the currently complex tax arrangements affect the withdrawal decisions of retirees and people of all ages making superannuation contributions. It also identifies a need to remove disincentives for older Australians to remain in the workforce (and out of the pension queue).

CONTRIBUTING TO SUPERANNUATION

More people will be allowed to contribute more money to superannuation:

- The various age-based maximum deductible contribution (MDC) limits will be abolished and replaced with an annual contribution limit of \$50,000. This is a significant increase for people of a younger age.
- A transitional period will apply for the 2008 to 2012 financial years – people aged 50 and over will have a deductible limit of \$100,000.
- All superannuation contributions made by the self-employed will be deductible up to the MDC. The current system discriminates against the self-employed who can only claim a full tax deduction for the first \$5,000 of superannuation contributions and then 75% of contributions above this amount until they reach their age-based limit.
- Self-employed persons will also be eligible for the Government co-contribution for their post-tax contributions on the basis of an adjusted income test. Currently the self-employed do not qualify for the co-contribution.
- Eligibility to make deductible superannuation contributions will be extended up to age 75. Superannuation guarantee contributions will still only be required for employees under age 70.

- Currently, employer contributions in excess above the age-based limit are taxed at 15 per cent and the employer is denied a deduction on that excess contribution. Under the proposals, excess contributions would be deductible but taxed at the top marginal tax rate in the fund.
- The work test will be abolished completely – the work test was abolished for people aged under 65 in 2004.
- From 10.5.06, post-tax contributions will be capped at \$150,000 a year. Funds will not be permitted to hold contributions in excess of \$150,000 and they will be returned to the member. The Government will consider whether the cap should be averaged over 3 years to allow people to accommodate larger one-off payments. This limit will not apply to a CGT exempt component.
- Earnings on contributions will continue to be taxed at a maximum of 15 per cent (this rate can be reduced through the application of imputation and other credits).

WHY NOT REMOVE CONTRIBUTIONS TAX?

Revenue (the Government papers also offer other excuses). You cannot have it both ways – too much tax revenue would be lost if there was no tax on contributions in and payments out of superannuation funds. Removing the benefit payments tax is a greater benefit to people who will retire in the near future as it will apply to all of their existing benefits (not just a date-related portion or their future contributions). If contributions tax was abolished part of your benefit would have accrued with tax and the portion after 1 July 2007 would not bear tax. This could be handled by apportionment or simply freezing the pre-2007 account, however the Government claims this to be administratively complex.

WITHDRAWALS AND PAYMENTS

Once you get to age 60, you are 'home free':

- No tax will be paid on superannuation benefits paid from age 60 (either as a lump sum or as a pension) from a taxed fund.
- Reasonable Benefit Limits (RBLs) will be abolished.
- The compulsory exit age will be abolished – there will be no forced withdrawal – people can continue working with more flexibility in how they use their superannuation.

- People will be able to access superannuation benefits before the age of 60 and will continue to be taxed on their benefits. The preservation age is already legislated to increase from 55 to 60 between the years 2015 and 2025.
- Pensions that start before 1.7.07 will continue with the same tax treatment until that date.
- For pensions commencing after 1.7.07, the pension standards will only require a minimum annual payment (the maximum withdrawal being the account balance). New pension valuation factors will apply being a minimum percentage of the account balance.

Withdrawals from untaxed schemes

In some state and federal government superannuation schemes, no employer contributions are made until a benefit becomes payable and no contributions or earnings tax is paid. As no tax has been paid on either contributions or earnings, superannuation benefits paid from these untaxed funds bear a higher tax rate (basically 15% on lump sum withdrawals and no 15 per cent rebate on pensions).

Under the 1 July 2007 proposals, for people aged 60 and over:

- Lump sum benefits from an untaxed scheme would be taxed at 15 per cent up to \$700,000 and at the top marginal tax rate thereafter.
- Pensions would be taxed at marginal tax rates but would receive a 10 per cent rebate of the total taxable part of the pension as an offset.

This would ensure a similar tax treatment between benefits paid from taxed and untaxed funds. The \$700,000 limit also features in the treatment of amounts paid to persons under 60 and under 55.

It is also proposed to halve the pension assets test taper rate from 20 September 2007 – from \$3.00 to \$1.50 per fortnight for every \$1,000 of assets above the excluded amount. The current 50% assets test exemption for complying income streams will be removed from the same date. People will still be eligible for a 50% exemption for complying income streams purchased before 20.9.07, and a 100% exemption for those purchased before 20.9.04.

Contact your Sothertons partner for more detailed analysis of your circumstances.

Make Sure ...

Make sure that you pay your superannuation contributions by 30 June to ensure the amount is tax deductible in the 2006 financial year. A deduction is not available this year if the amount is simply accrued or due and payable – the amount must be paid to the fund before 30 June.

Remember also that a cheque mailed to an interstate address can take 2 days to be delivered – 30 June 2006 will be a Tuesday so ideally any mail should be sent on the Friday before.

Super \$1,500 Co-contribution

A final reminder that contributions must be made to your superannuation fund by 30 June if you wish to enjoy the government's co-contribution of \$1.50 for every \$1 personally contributed. The co-contribution is a maximum of \$1,500 for your \$1,000 contributed.

You should be eligible for the co-contribution if:

- you make personal undeducted superannuation contributions to a complying superannuation fund or RSA
- your total income is likely to fall within the threshold of \$28,000 (phasing out to \$58,000)
- 10% or more of your total income is from eligible employment – ie. self-employed persons are still discriminated against
- you will be under 71 at 30 June 2006.

If this is you, consider contributing up to \$1,000 of personal contributions ("employee contributions") and the Government will match your contributions \$1.50 for each dollar of your money. Total income is assessable income plus reportable fringe benefits.

IMPORTANT: Professional advice should be considered before acting in any area. Clients and readers should not act solely on the material contained in this newsletter which is in the nature of general comments only. Material may or may not be applicable to your particular circumstances and changes in legislation sometimes occur quickly.

For details of each firm's financial planning arrangements and assistance with your financial affairs, please contact your Sothertons partner. Any decision to invest or not to invest should only be made after considering the specific advice of a licensed financial adviser.

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