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Hot Topics



Before the end of the year

It's already June and time to start thinking about the end of financial year. REMEMBER – anything you do to save tax will mean “spending money” and you need to work through the cash flow implications on anything you decide to do. There is no point saving some tax if you create a cash flow crisis in the process.

See below for full article

ATO benchmarks – what you need to know

The ATO use industry benchmarks to assess business performance and will take a closer look at businesses that fall outside of these benchmarks. But what happens if you have a niche business or have unusual trading conditions that mean you will almost never fall within these benchmarks?



See below for full article



New tax breaks for small business

Need a car? If you're in small business, the Government thinks you do. Spreading some joy prior to the Federal Budget, Treasurer Wayne Swan has announced an immediate tax write-off for small business of the first \$5,000 on the cost of a new car used for work purposes. However, the tax write-off is not scheduled to start until the 2012/2013 financial year, so we hope you did not need that car now. The write-off is in addition to other previously announced incentives for small business operators due to start in 2012.

See below for full article

Getting too close to your business: when personal and business funding blend

Most small business owners are pretty close to their business. For many, it is a major part of their life and the distinction between personal and business is easily blurred. This can also cross over to their financial affairs with business and personal finances being interrelated.

See below for full article



Important Dates To Remember

21 June

May 2011 Monthly Activity Statement – lodge and pay.

30 June

Last day for appointing a registered agent for an activity statement role.

30 June

Super guarantee contributions must be paid by this date to qualify for a tax deduction in the 2010-11 financial year.

What's Happening at Marsh Tincknell

New Team Members – Lisa Griffiths



Prior to joining Marsh Tincknell in 2011, Lisa worked for a corporate advisory and accounting firm for 2.5 years in Cairns and Brisbane. She initially commenced her career as a Receptionist but quickly progressed to becoming the Director's Secretary. She currently fulfils the personal assistant position for the team at Marsh Tincknell Super. In her spare time, Lisa enjoys shopping, the beach and spending time with family and friends. Welcome to the Team Lisa!

Congratulations!



I would like to congratulate Scott Clark, Scott Bailey, Tina Mathams & Dave Moore for passing their Financial Accounting module of the CA! It is certainly not an easy assessment – Well done guys and goodluck for your future modules!



Congratulations to Elizabeth Meiklejohn! Lizzie has completed the SMSF Specialist Advisor (SSA) program with SPAA, which is the peak industry body for Self Managed Superannuation Fund (SMSF) professionals. The program involves the sitting of an exam to test her knowledge on SMSFs and also recognition of professional history and experience before being awarded this designation.

Well done Lizzie!!

“A feeling of continous growth is a wonderful source of motivation and self confidence” – The Treasury of Quotes by Brian Tracy

Hot Topics cont'd

Before the end of the year *cont'd*

Tax planning these days falls into three baskets:

- Health & hygiene;
- Timing & efficiency; and
- Permanent savings.

Health & hygiene

There's no excuse for any business, regardless of size, for not completing a health and hygiene review prior to year end. This review is about making sure that your business has attended to its tax housekeeping. Included in this are:

- Writing off any damaged or obsolete stock;
- Writing off any bad debts;

- Scrapping any obsolete plant and writing it off your asset register;
- Ensuring any loan payments necessary to satisfy Division 7A loan agreements are made; and
- Complete any inter entity management charges.

All of these actions need to be taken before June 30 and your accounts need to reflect that the actions were completed e.g., a bad debt that is written off should be reversed out of your debtors ledger before June 30.

Timing & efficiency

Managing timing and efficiency is about causing your tax liability to fall at the best time for you. You do this by bringing forward expenses or deferring income. The efficiency part is about ensuring that tax is being paid by the entities or people where you can enjoy preferential tax rates. Think about the following:

- Declaring bonuses before June 30, even though they may not be paid until after that time;
- Declaring director's fees;
- Ensuring June quarter Superannuation Guarantee Charge (SGC) payments for employees are made before June 30;
- If you are a Small Business Entity (SBE), prepaying some of your expenses before June 30;
- Paying dividends;
- Committing to necessary consumable expenses pre June 30;
- Making Trustee resolutions to distribute trust income;
- Deferring income until after June 30, where possible;

Some of these strategies revolve around deferring income to the following year and bringing forward expenses and tax deductions into the current year. Don't always accept this as the right strategy. If you are in a start-up business and not generating a profit yet, you may not want to defer your taxing point. While saving tax always seems like a good idea, consider the rate of the tax saving. It will be a mix of personal and possibly company tax rates. Saving a tax dollar this year where the benefit may only be 20 cents in the dollar, is poor economy if next year you will pay 46 cents on the same tax dollar. Tax timing requires you to have a view about your current year position and any differential position for the following year.

Permanent savings

Permanent savings always sound attractive but you need to have the cash flow to manage them and be comfortable with both the short and long term outcomes. These strategies include:

- Maximising your superannuation contributions;
- Donations; and
- Consider holding your life insurance through your superannuation fund.

Keep your cash flow position in mind. You need to work out the cash flow effect of any decisions you might take. The more available cash you have, the easier it will be to make all of this work. So, perhaps now is the time to start following up your debtors and chasing some of those old accounts.

ATO benchmarks – what you need to know *cont'd*

This is the major problem with the current benchmarking approach. The ATO has a huge data base of information on business performance. When you lodge your business income tax return your accountant needs to include an industry code that is the closest match to your business. It is through the matching of data against common industry codes that the ATO builds its benchmark information and is able to statistically establish ranges for what is normal. With a lot of businesses however, there is no such thing as normal.

If you operate in a niche area then the industry code applied for your business may be the closest general match but you could have very different business characteristics to other businesses identified under the same code. Where this occurs it may throw you outside of the normal range. Even where you operate a business that is relatively homogenous and similar to a lot of other industry participants you may have multiple revenue streams within the business that cause differences. So, whether or not your business is within the normal range for your industry code can be irrelevant. You should not be trying to work to any pre determined performance range. Drive your business to produce the very best results possible.

Knowing that the ATO may compare your business to others in your sector you may want to ask your accountant to test your key numbers against the performance benchmarks the ATO publish. A good starting point is to see how you measure against the ATO information. More importantly, your accounting systems and record keeping should establish the accuracy of the tax information you are reporting. Your risk position increases significantly if you are outside of the benchmark range and your accounting and information systems are substandard and there are gaps in substantiating your information. Even where you are doing everything correctly you need to be capable of demonstrating that accuracy of your information from your information systems. There is also a higher focus on benchmarks if you are in a business sector that has a higher level of cash sales. From an ATO point of view, you are a higher risk candidate.

If you are concerned about the benchmarks we can complete a review of your position and make recommendations on your accounting and information systems (a mini tax audit on your business to see what the ATO would see). If there are any surprises, it is better to hear it from a friendly source. This would also allow you to fix up any system gaps that exist and be better prepared if the ATO comes calling.

New tax breaks for small business *cont'd*

These include:

- an immediate write-off of all assets valued at under \$5,000 (up from \$1,000 presently);
- a write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30%. Currently, small businesses allocate assets to two different depreciation pools, with two different depreciation rates (30 per cent and five per cent); and
- a reduction in the company tax rate to 29%.

The write-off for cars will replace the current entrepreneur's tax offset that provides a 25% tax offset on business income where income is between \$50,000 and \$75,000.

Getting too close to your business: when personal and business funding blend *cont'd*

Some recent tax cases are a reminder of the risks you run if you don't keep a sufficient separation between personal and business. Get it wrong and you can lose some valuable tax deductions. The main area of risk is for those that operate their business through another entity such as a company or trust. Maintaining this structural separation is quite common and often makes a lot of sense for asset protection purposes. But problems often occur when you personally incur an expense on behalf of your business and then seek to claim tax deductions for the expense.

The most common example of this is interest costs on borrowing.

Your business needs funding and the bank is reluctant to lend direct to your company but more than happy to lend to you. Or, you decide it would be better to borrow at a personal level because you can secure a much better interest rate. All of this makes sense so far. You are your business; what's the difference whether the business borrows the funds or you borrow them and let the business repay the loan? The problem comes down to who is entitled to the tax deduction. If the loan is in your individual name you may want the tax deduction for interest paid at a personal level. You can only achieve this if there is a reasonable nexus between the interest incurred and income you derive from your business. And, simply earning salary or wages from the business is unlikely to satisfy this requirement. The Court's position is that an employee is not normally required to provide funding for their employer, so the fact that you earn a salary from the business will not be enough. You need to show a clearer connection; this could be from dividends you are receiving (probably unlikely in the first couple of years of business life), directors fees, or the best evidence is where you have on lent the money to the company and are charging a rate of interest. In this case you would have both interest income and an offsetting expense.

If the loan is in your personal name also be careful about just having the company make the repayment and claim the interest deduction. Your company could run into Division 7A problems and trigger an unexpected tax outcome. Division 7A applies where payments, loans or debts by a private company to a shareholder have or appear to have been forgiven. The division treats these amounts as a deemed dividend to the extent that the amount represents a distribution of the company's profits.

Another common risk area is business expenses claimed at a personal level particularly if you operate your business through a discretionary trust. Where your sole source of personal income is from trust distributions, you are unlikely to be entitled to claim any tax deductions for expenses incurred in earning your income. The reason for this is that as a beneficiary of your trust, you have no right to income until the trustee appoints that income to you at year end. You do not have an automatic right to the income. And, at the time you incurred the expenses throughout the year e.g., car expenses, you had no income. You simply had an expectation that the trustee would appoint income from the trust to you at year end. Unfortunately, that's not enough.

The clear message is that you need to put some formality around arrangements where the personal and the business cross over. Yes, you and the business are almost one - but not from a tax perspective. Get this wrong and it can be expensive.

Talk to us today about how to structure your business to achieve the best possible outcome for your business and yourself.