Q ACCOUNTANCY SERVICES

NEWSLETTER

JUNE 2014

2014/15 Federal Budget Overview

On May 13 the Federal Treasurer, Mr Joe Hockey, handed down his first budget. The intention was to reduce the deficit from its current $49.9 billion to $29.8 billion next year. The deficit is then forecast to reduce to $17.1 billion in 2015/16 and $10.6 billion in 2016/17.

In what Mr Hockey described as, "delivering balanced and credible budget repair", the 'heavy lifting' in this budget will be done by families, pensioners, the under 35s and those that rely heavily on government assistance or subsidies. The Treasurer said the "age of entitlement is over" and has slashed welfare, tightened pensions and introduced a temporary tax debt. According to the Government, the Australian economy is forecast to grow at 2.5% in 2014/15. Unemployment is forecast to reach 6.25% by the June 2015 quarter and remain at that level until the end of 2015/16. Inflation is forecast at 2.25% in 2014/15 and is projected to remain at 2.5% over the forward estimates to 2017/18. The key items announced in the Budget are outlined below.

Personal Taxation

New Temporary Budget Repair Levy

Approximately 400,000 individuals with incomes over $180,000 will be subject to the Temporary Budget Repair Levy. A 2% levy on taxable income exceeding $180,000 will take effect from 1 July 2014 for three years. In conjunction with the 2% FBT rate increase from 1 April 2015, this announcement is expected to reignite interest in tax planning opportunities.

Income Tax

Including the Temporary Budget Repair Levy (assuming legislation receives assent) the personal income tax rates for the 2014/15 year (excluding the Medicare Levy) will be as per the following table.

Taxable Income	Tax Payable
$0 - $18,200	Nil
$18,201 - $37,000	19c for each $1 over $18,200
$37,001 - $80,000	$3,572 + 32.5c for each $1 over $37,000
$80,001 - $180,000	$17,547 + 37c for each $1 over $80,000
$180,000 +	$54,547 + 47c for each $1 over $180,000

Medicare Levy

The Medicare Levy will increase from 1.5% to 2% from 1st July 2014 (to fund the Disability Care Australia scheme) therefore individuals whose taxable income is in excess of $180,000 will effectively pay 49% tax on income earnt over that amount. For the 2013/14 year, the Medicare levy low-income threshold for families has been indexed up from the 2012/13 amount of $33,693 to $34,367. The additional amount of threshold for each dependent child or student will be increased to $3,156.

Family Tax Benefit & Other Welfare Reforms

Eligibility thresholds for non-pension payments will be frozen for 3 years from 1st July 2014. This will include payments such as Family Tax Benefit, Child Care Benefit, Child Care Rebate, Newstart Allowance, Parenting Payments and Youth Allowance. A range of reforms to Family Tax Benefits have been proposed which will primarily limit the availability of these benefits.

- The Family Tax Benefit B (FTBB) primary earner income limit will be reduced from $150,000 to $100,000 per annum as of 1st July 2015. As such, around 10% of the 1.4 million families who currently receive FTBB will no longer receive the payment.
- Access to FTBB will be restricted to families where the youngest child is less than 6 years of age as at 1st July 2015. Transitionally, those whose youngest child is aged 6 and over on

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Personal Taxation *(cont)*

30th June 2015 will continue to be eligible for 2 years. Under the current system, families could claim the benefit until the oldest child turned 18 provided they were still in education.

- The income threshold for the Dependent (Invalid and Carer) Tax Offset (DICTO) will also be reduced to $100,000 from 1 July 2015.
- The income thresholds of Family Tax Benefit Part A will no longer be linked to inflation and rates will be frozen until June 30, 2017.
- The payment rate for Family Tax Benefit A (FTBA) and Family Tax Benefit B (FTBB) will be frozen from 1st July 2014 to 30th June 2016.
- From 1 July 2015, a per-child add-on amount will no longer be used to calculate a family's higher income-free area for FTBA. The higher income-free area of $94,316 will remain, without the add-on amount of $3,796 for the second child and subsequent children.
- As of 1st July 2015 FTBA & FTBB end of year supplements have returned to their original rates (of $600 and $300 respectively) and will remain at that rate instead of being index linked.
- The FTBA Large Family Supplement (currently $12.04 per child per fortnight payable on the third child and each child after that) has been changed and only applies to families with four or more children as of 1st July 2015.
- A new allowance of $750 per child aged between six and 12 years will be introduced for single parents on the maximum rate of FTB Part A whose youngest child is between six and 12 years of age at which point they become ineligible for the FTB Part B. This allowance will commence from 1 July 2015.

Medical Co-Payments

Costs for visits to the doctor (and out of hospital pathology and diagnostic imaging providers) will increase from 1st July 2015 when a co-payment of $7 will apply.

Concession card holders or children under 16 years will pay the $7 for the first 10 visits per year. Prescription medicines will also cost more from 1st January 2015 with general payments increasing $5 from $37.70 to $42.70 and concession payments increasing eighty cents from $6.10 to $6.90.

Unemployment Benefits

Under the government's 'Earn or Learn' initiative, access to unemployment benefits for under 30s will only be available from 1st January 2015 after serving a six month waiting period and demonstrating job search and participation in employment services support. Then after six months, claimants will be required to participate in Work for the Dole to receive income support.

Reduced Tax Offsets

Most dependant tax offsets have been abolished including the Mature Worker Tax Offset and Dependent Spouse Tax Offset (DSTO). The DSTO is replaced by Dependent (Invalid and Carer) Tax Offset (DICTO) for taxpayers with a dependant who is genuinely unable to work due to a carer obligation or a disability. Additionally, the income threshold for Dependent (Invalid and Carer) Tax Offset will be reduced to $100,000 per annum

Education

HELP Debt Repayments

Graduates will repay tertiary education loans at a lower income threshold of $50,638 from 2016 (a 10% reduction) and the interest rate on loans will be changed to reflect the cost of borrowing (to a maximum of 6%).

Apprenticeships

The 'Tools for Your Trade' program will cease from 1st July 2014 and be replaced by Trade Support Loans which offer HECS style loans of up to $20,000 to apprentices in occupations on the National Skills Needs List. A 20% discount applies to apprentices who complete their apprenticeships.

Non-Residents

For the 2014/15 year, a flat rate of tax of 32.5 per cent will apply to all taxable income of non-residents up to

Personal Taxation *(cont)*

$80,000. For taxable income exceeding $80,000, the marginal tax rates for non-residents are the same as those for resident individuals noted above. Non-residents are also expected to bear the burden of the Temporary Budget Repair Levy.

Budget Changes For Business

Company Tax Rate

In the budget the Government announced the company tax rate will be reduced from the current rate of 30 per cent to 28.5 per cent with effect from income years beginning on or after 1 July 2015. The reduction will apply to all companies, however, for companies with a taxable income in excess of $5 million the likely benefits from the rate cut will be largely offset by the imposition of the Paid Parental Leave (PPL) Levy. The PPL Levy will be charged at the rate of a 1.5 per cent on taxable income that exceeds $5 million.

Fringe Benefits Tax

Fringe Benefits Tax will increase from 47% to 49% from 1st April 2015 until 31st March 2017 to tie in with the introduction of the Budget Repair Levy for high income earners and to prevent avoidance of the levy.

Superannuation Guarantee Contributions

The timetable for increasing Superannuation Guarantee Contributions to 12% has been slowed. Superannuation Guarantee Contributions increase from 9.25% to 9.5% as of 1st July 2014 with the next increase scheduled from 1st July 2018 to 10%.

Effective Date	SGC Rate (%)
1/7/2013	9.25
1/7/2014	9.5
1/7/2018	10
1/7/2019	10.5
1/7/2020	11
1/7/2021	11.5
1/7/2022	12

Mature Aged Workers

As of 1st July 2014, a new wage subsidy called 'Restart' will be introduced. It is specifically designed to encourage employment of Australians aged 50 or over who have been receiving income support (including Disability Support Pension) for at least six months. The maximum subsidy is $10,000 and instalments will commence after the worker has been employed for at least six months. The maximum $10,000 subsidy will be pro-rata for part-time employment and will be paid as $3,000 after the first six months, another $3,000 after twelve months, $2,000 after 18 months and $2,000 after 24 months.

Research and Development Tax Incentive Reduced

The Research and Development tax incentive will be reduced by 1.5 percent from 1 July 2014 (from 45 to 43.5 per cent) for refundable tax offsets available to eligible entities with an aggregated turnover of less than $20 million, and from 40 to 38.5 per cent for non-refundable tax offsets available to all other eligible entities.

Re-Introduction of Fuel Excise Indexation

The fuel excise rate has been frozen at 38.143 cents per litre since March 2001 when it was abolished by the Howard government. The re-introduction of bi-annual indexation and excise-equivalent customs duty on all fuels (except aviation fuel) will commence from 1st August 2014 and will be based on the Consumer Price Index (CPI). The impact on businesses will be that they cannot claim a credit for the fuel excise under the Fuel Tax Credit system and will have to either absorb some or all of the increased cost, or pass it on to their customers.

Superannuation & Retirement Changes

Contribution Caps

From 1 July 2014 there is indexation of contribution caps, as detailed in the table on the following page.. Regular indexation of the caps was legislated back in 2007, however, it has been frozen in recent years.

Superannuation & Retirement Changes *(cont)*

	Concessional Contribution Cap			Non-Concessional Contribution Cap	
Year	**Age under 50 years**	**Age 50 to under 60 years**	**60 years and over**	**Standard**	**3-year bring forward**
2012/13	$25,000	$25,000	$25,000	$150,000	$450,000
2013/14	$25,000	$25,000	$35,000	$150,000	$450,000
2014/15	$30,000	$35,000	$35,000	$150,000	$540,000

Age Pension Eligibility & Preservation Age

The qualifying age for the age pension will become 70 by 1st July 2035. The qualifying age will increase by six months every two years transitionally for those born after 1st July 1958 as the previous government had already increased the retirement age to 67 as of 1st July 2025.

At this stage the government is silent on whether there will be an increase in the age when individuals can access their superannuation to bring it into line with the revised retirement age.

Business Start-up Corner

Thinking of starting a business?

Once you have had that 'light bulb moment' and come up with your brilliant idea for your new business, you want to get started in a hurry. However, before you make any big financial commitment you want to make sure the concept has 'legs'. A lot of people elect to establish their business under their own name or trade under a business name rather than establish a company or trust structure. Before you make your decision regarding the most appropriate business structure there are some key considerations.

It's a relatively simple process to register your business name with ASIC but from a legal and financial point of view there is a big difference between starting out under a business name and having a company structure. While there are a multitude of different options when it comes to business structures including sole trader, company, trust and partnership, whenever we provide advice on business structures we always look at other considerations including asset protection, the potential to admit new partners and eligibility for discount capital gains tax concessions. This is not the right forum to get technical so let's just look at the major distinction between trading under a business name and operating as a company.

Firstly, the set up costs are a lot lower to register a business name. The national business name registration system allows you to register the name for one year for $33 or $76 for three years. In the past you were required to register the business name in each state where you planned to do business which was costly and time consuming. Now you only need to register once to be registered in all states and territories of Australia. You can register a business by going to the ASIC website (www.asic.gov.au) and clicking on the Business Names drop down menu.

While this sounds very simple you need to understand that it doesn't necessarily give you exclusive rights to use the business name. Registering a business name with ASIC lets you trade under that name but someone else could come along and demand you change

Business Start-up Corner
Thinking of starting a business? (cont)

your business name if they have trademarked the name before you and you are conducting a similar type business.

Asset Protection

An incorporated company will cost more to register and operate but a company is regarded as a separate legal entity distinct from the business owner and can sue and be sued. It provides another layer of asset protection in the event of the business failing. This is a key consideration particularly in high risk industries like the building trades and manufacturing. With a business name you don't get this protection because you are the legal entity that simply trades under a registered business name. If something goes wrong your personal assets are on the line.

On the other hand, a company structure means the creditors are restricted to the assets of the company. This means your home is safe (unless you have lodged it as a guarantee for a company loan). As a Company Director, you can still be liable and accountable for breaches of the law but generally speaking, your personal assets are safe from creditors. In terms of asset protection there are three steps you can take:

1. Protect your business name and brand because it can be one of your most valuable assets. Don't think that because you have registered your company name or business name with ASIC that it is protected against others using it for similar businesses. This is not the case and for true protection you need to consider registering the name as a 'trademark' with IP Australia (http://www.ipaustralia.gov.au).

2. Protect your business with strong Terms and Conditions that can be listed on your website and on your quotes and contracts. These can provide some protection for your business to limit your liability but don't risk copying them from another website or writing them yourself. There are plenty of online templates available that could prove invaluable.

3. Insurance is designed to protect you from financial loss through things like accidents, stock damage, fire, theft and flood. We often talk through these options with clients starting a business and we urge you to do the same. Forewarned is forearmed and before you make your first sale they need to be in place.

Starting a business is a bit like a game of chess. You need to make the right opening moves and your business structure and issues like asset protection must be a priority. If you're looking to start a business talk to us today and we'll help you navigate your way through the start-up maze of structures, registrations, asset protection, insurances and accounting software.

Superannuation Data Standards Change 1st July 2014

Effective from the 1st July, 2014 new superannuation data standards (*SuperStream*) will be progressively introduced. These new standards require employers to make super contributions electronically in a message format to the superannuation fund and the contribution payment is to be made electronically through the banking system. The data message and payment are linked by a payment reference number which enables

Superannuation Data Standards Change 1st July 2014 *(cont)*

reconciliation by the receiving fund. These standards also apply to all contributions to Self Managed Superannuation Funds (see section below).

What Employers Need To Do & When

- **Employers with 20 or more employees:**
 As from the 1st July 2014 medium to large employers (20 or more employees) can make the physical payment of super contributions for their employees plus transfer the associated contribution data to the relevant super funds electronically. All employer super contributions are captured including super guarantee, award and salary sacrifice. In addition to the electronic contribution payment and data transfer requirement, new default member registrations initiated by an employer and the ongoing maintenance of employee member details will also have to be conducted/transferred electronically. There is a twelve month transition period in place so all data and funds must be transferred as of 1st July 2015.

- **Employers with 20 or less employees:**
 The standards will apply to employers with less than 20 employees from 1 July 2015 but a twelve month transition period will also apply. All employees, whether full time, part time or casual on the books at 1 July 2014 are counted in determining whether an employer is regarded as medium to large or small.

Depending on the size of the business, the new rules may require employers to check that they have a software solution that can provide the necessary data and files or that they appoint an external provider. Employers can utilise the services of a superannuation clearing house, which is a service that receives one file and one payment from an employer and transfers payments and data to multiple superannuation funds in the required format.

The Federal Government operates a free clearing house service for employers with fewer than 19 employees called the Small Business Superannuation Clearing House. Larger employers will need to pay a service provider (examples are QuickSuper from Westpac or SuperChoice etc.) but many of the larger superannuation funds offer complimentary clearing house services to their existing clients.

Self Managed Super Funds (SMSF)

Self managed superannuation funds receiving employer contributions must be able to receive the electronic payment and data details. Therefore, any SMSF might need to comply with the new rules as early as 1 July 2014 depending on the number of employees. Business owners with their own self managed fund are excepted under the related party ruling and no action is necessary.

How to Comply

A self managed fund caught under the new rules will need to engage a SMSF messaging service provider. The ATO has established a register of SMSF messaging service providers (below) and as an example, the Australia Post messaging service had an introductory cost of $25 for a 12 month subscription while GBST Wealth Management advertises their service as free. More details can be found at: http://www.ato.gov.au/Super/SuperStream/In-detail/Contributions/SMSF-messaging-service-providers/.

Data Matching Update

Every year the ATO targets different industries with its data matching program. Last year the ATO reported that it would data match eBay records against Centrelink records. This is now part of its permanent compliance program and the ATO will be collecting online sales data of registrants who sell goods and services totalling $10,000 or more in either the 2011/12 or 2012/13 tax years.

The ATO is concerned that with the growth and use of online services to buy and sell goods, some of those users may not be meeting their tax obligations. They will be obtaining data from eBay Australia & New Zealand and will be examining those with undeclared income or incorrect reporting.

Data Matching Update *(cont)*

It is fair to say that the ATO's data matching programs and the volume of the data it obtains cannot be under estimated. Individuals and businesses need to be aware of the ever increasing capacity of the ATO to cross match individual tax returns to various data sources to detect failures in tax compliance.

ATO & Superannuation

Self Managed Superannuation Funds Under the Microscope

In Australia, Self Managed Superannuation Funds (SMSF) account for 31% of the total superannuation assets with nearly one million (8% of total super members) members. The ATO has encountered some common problems in its audits in previous years including:

- Loans and borrowings;
- In-house assets;
- Not investing at arm's length;
- Acquisitions from related parties;
- Lack of separation of assets;
- Sole purpose breaches.

The ATO will be reviewing every fund reported to it by approved SMSF auditors and last year 150 funds were declared non-compliant and 440 people were disqualified from being a trustee.

Penalties for SMSF Trustees

The Government has approved administrative penalties applicable from 1st July 2014 to breaches of the superannuation laws, with particular impact on trustees of SMSFs who will be personally liable for penalties ranging from $850 up to $10,200 depending on the contravention. The fund cannot pay the penalty as the trustee is personally liable. Existing arrangements which contravene super law will also come under the new penalty regime so trustees need to rectify any contraventions as soon as possible to avoid the penalties. An example would be a loan to a member or relative which occurred before and still exists after the 1st July, 2014. Each individual trustee in this case would incur and be personally liable for a $10,200 penalty. Such a loan would need to be repaid to the fund as soon as possible with commercial interest.

Super Obligations Industries at High Risk

Employers in the following industries have been identified by the ATO as having a higher risk of not meeting their superannuation obligations:

- Beauty Industry and Hairdressing
- Clothing Retailers
- Management Advice and Consulting.

Where there's a Will.....

Have you got a valid Will? If you've already made a Will, have you reviewed or updated it since there was a significant change in your life? You'll need to make changes to your Will to ensure that it still meets all of your goals. Below are some events that may prompt a need for review of your Will.

Where there's a Will..... *(cont)*

- Has there been a change in your marital status (many states have laws that revoke part or all of your Will if you marry or get divorced) or that of your children or grandchildren?
- Has there been an addition to your family through birth, adoption or marriage (stepchildren)?
- If your spouse or a family member has died, has become ill or is incapacitated.
- Have you acquired or disposed of a significant asset?
- If your spouse, your parents or other family member has become dependent on you.
- Has there been a substantial change in the value of your assets or in your plans for their use?
- If you were to receive a sizeable inheritance or gift
- Your income level or requirements have changed
- You are retiring
- You have made a change in your estate plan (e.g., you created a trust or executed a codicil to your will)
- If you are a business owner, have you planned for the future of your business after you die?
- If you're a business owner, have you considered exit strategies from your business?
- Do you know how much money your family would need if you died, became seriously ill, or totally or permanently disabled today?
- Have you appointed someone to look after your affairs if you were to die or become incapacitated?
- Is your income protected and if so, are the protection measures sufficient for your family's needs?

Claiming Travel Between Home & Work

Over the years one of the most commonly asked questions from clients is, 'can I claim the cost of travel from home to work'?

Generally speaking, individuals travelling from home to their workplace cannot claim a deduction because the travel is classified as a private expense. However, you may be able claim travel expenses between home, your regular place of work or your alternative workplace but such claims can be a minefield for individuals. To assist you with some guidelines we have outlined what does and doesn't constitute deductible travel between home and the workplace.

Claimable

Travel costs may generally be claimed when travelling:

- Directly between two places of work (i.e. for a second job).
- From home to an alternative work site for work purposes (e.g. a client's premises) and back to home or back to your normal place of work.
- From your normal workplace to an alternative workplace and back to home or back to your normal workplace.
- When your home is your base of employment (see Note A below) and you start work at home, then travel to a workplace where you continue working for the same employer.
- Between shifting places of employment for itinerant work (see Note B below) where you regularly work at more than one workplace before returning home each day.

Claiming Travel Between Home & Work *(cont)*

- Where you are required to carry bulky or heavy tools or equipment that you use for work and can't leave at your workplace (e.g. a double bass for a musician or a heavy power tools for a tradesperson).

Notes

A - For individuals, your home can only be counted as a workplace if you carry out 'itinerant work' - that is, work that requires travelling from place to place.

B - Factors which would indicate your work is itinerant would be:

- The very nature of your work involves travel between various work sites and is fundamental to the role, not just because it may be convenient for you or your employer.
- You have a network of workplaces you travel to throughout the day.
- You are continuously travelling between work sites.
- Your home is the base of your operations – you start work at home and cannot complete it until you attend at your work site.
- You often don't know where your work sites for the day may be.
- Your employer provides a travel allowance in recognition of your requirement to travel continually between work sites and this allowance pays for the travel.

Examples of these types of itinerant workers would include sales representatives, trades people, commercial travellers or Government inspectors whose homes are their base of operations from which they travel to a number of workplaces throughout the day over an extended period of time.

They may typically appear at the employer's workplace periodically (once a week for example) to file reports, organise new assignments or pick up supplies. Travel from home to the office in these limited circumstances would be treated as business travel and therefore claimable.

What's Not Claimable

Below is a list of common misunderstandings of claimable travel:

- Travel for minor work-related tasks such as picking up or posting the mail on the way to or from work.
- Driving between home and the workplace more than once a day.
- Being on call and your employer contacts you at home to come into work.
- Shift work or overtime outside normal business hours.
- Your home is your base for your own business and you travel directly to a place of work where you are an employee.
- Some of your work is performed at home.

The rules are quite complex and we encourage you to consult with us regarding your specific travel queries.

The greatest compliment we receive from our clients is the referral of their friends, family and business colleagues. Thank you for your support and trust.