



CLIENT BULLETIN—JUNE 2009

CONTENTS

- **Small Business Tax Break**
- **Superannuation—Concessional Contribution Caps**
- **Education Tax Refund**
- **Government Co-Contribution**
- **Planning for your tax return**
- **Lessons from the Financial Crisis**
- **Drought Management Tips**
- **SRF Scholarship for full time / part time University Study**

SMALL BUSINESS TAX BREAK

As part of the Budget, the Government has announced the extension of the small business tax break (also known as the investment allowance). The tax break was designed to encourage capital investment by Australian businesses.

Despite the Budget extension, time is running out for you to take advantage of the tax break.

It's important to get advice now about whether you should be taking advantage of this one-off incentive. The main features of the tax break are recapped below.

The deduction percentage

- Under the Budget announcement, **small businesses** (one that has a turnover of \$2 million per year or less) will now be able to claim an additional tax deduction of 50 per cent – up from 30 per cent previously - of the cost of eligible assets acquired between 13 December 2008 and 31 December 2009, and installed by 31 December 2010.
- All other businesses will be able to claim a tax deduction of:
 - ◇ 30% on expenditure for eligible assets acquired between 13 December 2008 and 30 June 2009 and installed ready for use before 30 June 2010; and
 - ◇ 10% on expenditure for eligible assets acquired between 1 July 2009 and 31 December 2009 and installed ready for use before 31 December 2010.

Spending thresholds

- There are different eligibility spending thresholds for small businesses and other businesses.
- Small businesses will only need to spend a minimum of \$1,000 per eligible asset in order to qualify for this special deduction. Other businesses will be entitled to the same deductions if they spend a minimum of \$10,000 per eligible asset.

- Assets eligible for this allowance must be new tangible depreciating assets and new expenditure on existing assets used in carrying on your business and for which you can claim a capital allowance deduction.
- This bonus deduction is on top of the usual capital allowance (depreciation) deduction that you can claim for eligible assets.

SUPERANNUATION — CONCESSIONAL CONTRIBUTIONS CAPS

A super contributions cap is the maximum amount you can contribute to super without being liable to excess contributions tax. Concessional contributions are sometimes known as 'before-tax' contributions and include:

- contributions made by an employer for an employee, including contributions made under a salary sacrifice arrangement; and
- personal contributions that are claimed as a tax deduction (where the person is eligible to claim).

The Government has announced that it will reduce the concessional contributions cap to \$25,000 per annum (indexed) reduced from \$50,000, with effect from the 2009-10 financial year.

The transitional concessional contributions cap (applicable to individuals aged 50 and over for the 2009-10, 2010-11 and 2011-12 financial years) will be reduced to \$50,000 per annum from \$100,000.

EDUCATION TAX REFUND

The 2008-09 year (1 July 2008 to 30 June 2009) is the first year you may be entitled to claim the Education Tax Refund (ETR). You may be able to claim the ETR for eligible education expenses you incur while your child attends primary or secondary school.

It is also possible for independent students to claim the ETR to

SRF JUNE 2009 BULLETIN

help them meet the cost of primary and secondary school education.

Who's eligible?

Families, independent students and approved care organisations can claim 50% of their eligible educational expenses if:

- they received family tax benefit (FTB) Part A for the child; or
- a payment was made for the child that stopped them from receiving FTB Part A for that child.

What can I claim?

The maximum you can claim is 50% of eligible expenses up to:

- \$750 for each eligible child in primary school - that is, a refund of up to \$375.
- \$1,500 for each eligible child in secondary school - that is, a refund of up to \$750.

If your expenses exceed your refund limit for the year, any excess can go towards your following year's refund claim, as long as you are still eligible.

What's an eligible education expense?

Eligible expenses include the purchase, lease, hire or hire-purchase costs, repairs and running costs of:

- laptops, home computers and associated costs
- computer-related equipment such as printers, USB flash drives, as well as disability aids to assist in the use of computer equipment for students with special needs
- home internet connections, including the costs of establishing and maintaining them
- computer software for educational use
- word processing, spreadsheet, database and presentation software, internet filters and antivirus software
- school textbooks and other paper-based school learning material, including prescribed textbooks, associated learning materials, study guides and stationery
- prescribed trade tools - for example, tools required to complete a school-based apprenticeship.

Education expenses that are **not** eligible include:

- school fees and school uniform expenses
- student attendance at school-based extra curricular activities such as excursions and camps
- tutoring costs and school subject levies
- sporting equipment and musical instruments
- building levies and donations
- library book fees and school photos
- tuck shop expenses
- waiting list fees and transport

- computer games and consoles.

How do I claim the ETR?

You claim the ETR in your tax return. If you don't have to lodge a tax return, you can still claim the ETR on a special claim form provided by the ATO.

GOVERNMENT CO-CONTRIBUTION

As the 30th June is fast approaching, you may be eligible for the governments co-contribution of \$1.50 for every \$1, up to a maximum co-contribution of \$1,500 per year.

The eligibility requirements are:

- You make a personal super contribution by 30th June into a complying super fund or retirement savings account.
- Self employed people are now eligible for the scheme.
- Your total income is less than \$60,342
- 10% or more of total income is from eligible employment, running a business or a combination of both.
- You are less than 71 years old at 30th June 2009.
- You lodge an income tax return

NOTE— You are not entitled to a co-contribution for any amount of personal contributions you choose to claim as a tax deduction.

PLANNING FOR YOUR TAX RETURN

Before looking at some key tax-time issues for you to consider when preparing your 2008-09 return, it's important to recap briefly on some important basics for your tax return preparation.

Tax planning basics

Tax planning is something you should be looking at regularly throughout the year. The reality, however, is that most of us tend only to look at it about now. Whilst there is no magic formula for the 'best' tax planning strategies, good planning practice aims to:

- **cover the basics** - such as including all your assessable income and maximising all the tax deductions to which you are entitled; and
- **look at opportunities to improve your tax situation** – this depends on your particular circumstances but may include things like ensuring any capital gains are offset with any available capital losses or maximising your superannuation contributions for the year.

Keeping proper records

It goes without saying that this is essential and is where a lot of problems start if not done properly. To get motivated, some people find it helpful to

SRF JUNE 2009 BULLETIN

approach record keeping as if your business could be audited by the ATO at any time. Here are some tips to help you:

- generally you should keep your records for five years.
- you will need records like bank statements, cheque butts, deposit slips, cashbooks, and accounting records (e.g. your general ledger, trial balance, and preliminary profit and loss statement and balance sheet).
- watch out for some types of expenses that need particular records (e.g. motor vehicle log books, diaries for travel expenses).

Key tax-time issues

Maximise your deductions now

One of the more popular strategies to legitimately maximise your deductions is by prepaying some items of your business expenditure before 30 June.

Before you prepay any business expenses, you should be aware that there are some rules that may affect your entitlement to claim a deduction for prepaid business expenses (eg. you may have to apportion your deduction over more than one tax year).

Check your bad debts now

This is a real issue in the current economic climate and one that the ATO always takes a close look at. If your business has a debt that has already been brought to account as assessable income and you can't collect that debt, you want to make sure you don't end up paying tax on income you can't collect.

The way you do this is to claim a deduction for this debt, where such a debt is 'bad' and is written off in your accounts before 30 June.

Watch out for GST traps

It's not hard to make a mistake keeping track of and working out your business' GST reporting obligations, payments and refunds.

Here are some common traps to avoid.

- Be careful not to understate the total value of goods and services supplied.
- Make sure you are not overstating your entitlement to input tax credits.
- Make sure you report supplies and purchases in the correct period.
- Classify your supplies correctly – be particularly careful if you think a supply is GST-free.

Value your trading stock at 30 June

You'll need to value your closing stock on hand and work-in-progress at 30 June. Resist the temptation to guess – this is a common mistake that businesses make!

Issue employees' payment summaries

As a general rule, you are required to give your employees their payment summaries ('group certificates' in the old language) on or before 14 July 2009.

LESSONS FROM THE

FINANCIAL CRISIS

Our good friend Pita [Alexandar](#) from New Zealand who is a chartered accountant, emphasizes some fundamentals that we all should learn from the current financial crisis:

- Concentrate on our home base and our core business.
- Be very careful with capital expenditure
- Keep crackerjack people at our shoulders at almost any cost.
- Market what you produce rather than just sell it.
- Spend an hour a day reading and keeping in contact with your business network.
- If a loss is inevitable then minimise it
- Communicate your problems and issues to your key people – seek their advice and input.
- Lead, lead and lead on everything to do with your business
- Never forget that nothing manages itself as well as a farm loss – you need to become an obstacle to farm losses
- Make sure early on that you have enough business overdraft
- Expenses always come quickly and income is always delayed – don't lose your cool over this
- Don't let your vehicle and plant portfolio get too old and slow – you need as few wheels as possible but what wheels you do have must be in good order.

DROUGHT MANAGEMENT TIPS

Even though the season has improved for a number of clients, we have come across some tips and pretty good advice on drought management, which may in the future be useful to our livestock clients:

SRF JUNE 2009 BULLETIN

Go for a Drive - If you haven't been out much lately and you suspect things are a bit "out of whack", find a reason to go for a drive in a district that is non drought-affected. You often need this reality check to jolt you into confirming that you are in trouble and that something has to happen fast.

Talk to the right people - Get alongside farming mates who you know have been successful in handling droughts and tough times, and benchmark yourself against them. Believe it or not, farm consultants can be quite useful here too! They tend to be more objective and they usually have few numbers about them that can help in making decisions.

Sort out mobs on condition - There's a tendency to graze mobs according to age or in the case of trading stock, where they were sourced from. If feed is short, it makes more sense to draft stock on condition, so you can look after the poorer stock and not over-feed the better stock.

Ring-fence replacements - If you haven't sorted up and separated replacement ewe lambs and heifers by now you should have. Anything else goes into the "saleable" line. Those replacements must be looked after at all cost. If there are some animals that you know will never make good replacements – down the road. Cut your losses. Be well paid for them and keep a few more older cows instead.

Know the cost of feeds - The cost of agistment always seems high because it is "in your face" but in reality, it can be the most effective supplementary feed around. Hogget grazing at \$2.00/kgLWG costs 17-18c/kgDM including cartage. Beef cow grazing at \$6.00/hd/week costs – 15c/kgDM including freight. This compares to 16-19c/kgDM growing grass with nitrogen or 30-35c/kgDM buying and feeding out baleage. The difference with agistment is that the relief is immediate and you don't have to do any work!

Look at the numbers - If nothing else, you should be recording and observing soil temperatures, rain fall, stock condition, feed covers and your kgLW/ha. These basic indicators should be driving your feeding and stocking decision-making.

Don't be afraid to de-stock - De-stocking is the most immediate and effective way of getting feed demand and supply back into balance. Very few people have ever regretted destocking once they have done it. You soon realise how much the remaining stock have been underfed.

Take ownership of the outcome - You know things aren't going the way you planned it. There's going to be an impact on the cash flow. Don't wait for someone else to tell you what that impact is. Work through the numbers yourself. Talk to your advisors and banker about it and get on with the job. Ignoring the reality will only cause you to delay the decision.

SRF SCHOLARSHIP FOR FULL TIME / PART TIME UNIVERSITY STUDY

For a number of years now, we have offered a generous scholarship to recent school leavers who are studying a Business degree majoring in accounting. The scholarship is flexible and involves a combination of full and part time work at our office and full and part time study at University. The student receives a market rate salary while working with us and receives a college allowance while attending full time university.

Applications are now being accepted for the 2010 program. If you are aware of students that may be interested in applying, please ask them to contact Rachel Lewis of our office for a copy of the current brochure.

EMAIL OR PAPER?

To receive future newsletters please advise our office if you prefer paper or email copy. Email us at office@srfpl.com.au

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