# 2007 TAX PLANNING & WEALTH CREATION STRATEGIES

VEALE PARTNERS

CERTIFIED PRACTISING ACCOUNTANTS

**June 2007 TAX**

**Welcome to our 2007 year end Tax Planning and Wealth Creation Newsletter.** We hope you enjoy the fresh approach to our newsletter; the contents have been researched and written by our great team at Veale Partners.

The 30th June 2007 is fast approaching and now is the time for taxpayers to consider year end tax planning and strategies. With tax cuts applying from 1 July 2007 (see the Federal Budget item in this newsletter), there is even greater benefit to be had this year from year end tax planning.

## ACT NOW TO SAVE MONEY

Effective tax planning requires time and consideration, but with our help, you could significantly reduce your personal and business tax burdens.

## 1. FEDERAL BUDGET 2007

The main focus of the 2007 Federal Budget was to provide tax cuts to low income earners and ease compliance costs for small and medium business.

Some of the changes that were handed down in the Budget are as follows:

### Reduction in Tax Rates

| Current Tax Thresholds Income Range ($) | | New Tax Thresholds From 1st July 2007 Income Range ($) | | New Tax Thresholds From 1st July 2008 Income Range ($) | |
|---|---|---|---|---|---|
| 0 - 6,000 | 0% | 0 - 6,000 | 0% | 0 - 6,000 | 0% |
| 6,001 - 25,000 | 15% | 6,001 - 30,000 | 15% | 6,001 - 30,000 | 15% |
| 25,001 - 75,000 | 30% | 30,001 - 75,000 | 30% | 30,001 - 80,000 | 30% |
| 75,001 - 150,000 | 40% | 75,001 - 150,000 | 40% | 80,001 - 180,000 | 40% |
| 150,000+ | 45% | 150,000+ | 45% | 180,000+ | 45% |

**As most types of income received by an individual are taxed on a "cash received" basis, it would be prudent to defer the receipt of income until post 30 June 2007 to take advantage of changes to marginal tax rates applying from 1 July 2007 as shown above.**

### Senior Australians

As of 1 July 2007, senior Australian citizens can earn even more income without paying tax.

- Singles may have taxable income up to $25,867 (up from $24,867)
- Couples up to $43,360 (Up from $41,360)

### Childcare Tax Offset

From 1 July 2007, the government will bring forward the payment of 30% childcare tax offset by allowing families with out of pocket expenses for both 2005/06 and 2006/07 will receive two offsets in 2007/08.

The first offset will be paid through the tax system in accordance with the current rules; whilst the second offset will be received as a direct payment from the Family Assistance Office.

### Additional Superannuation Co-contribution Amount

The government announced a one-off doubling of the superannuation co-contribution for the 2005/06 income year.

Taxpayers who are eligible for the $1500 co-contribution amount will now receive $3000.

### Small Business Changes

From 1 July 2007, businesses with an annual turnover of less than $75,000 will no longer be required to register for GST.

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269 Centre Road
BENTLEIGH VIC 3204
PO Box 354
BENTLEIGH VIC 3204
Tel: (03) 9557 9200
Fax: (03) 9557 9400
Email: info@vealepartners.com.au

**Our firm provides the following range of services:**

**TAXATION RETURNS**
**For Companies, Trusts, Partnerships, Superannuation Funds and Individuals**

**STRATEGIC TAX PLANNING AND PROBLEM SOLVING**

**LEGAL AND STATUTORY COMPLIANCES**
**Eg. ASIC Requirements**

**SUPERANNUATION PLANNING AND FUND ESTABLISHMENT**

**RETIREMENT/ SUCCESSION PLANNING**

**ACCOUNTING**
**BUSINESS VALUATIONS**

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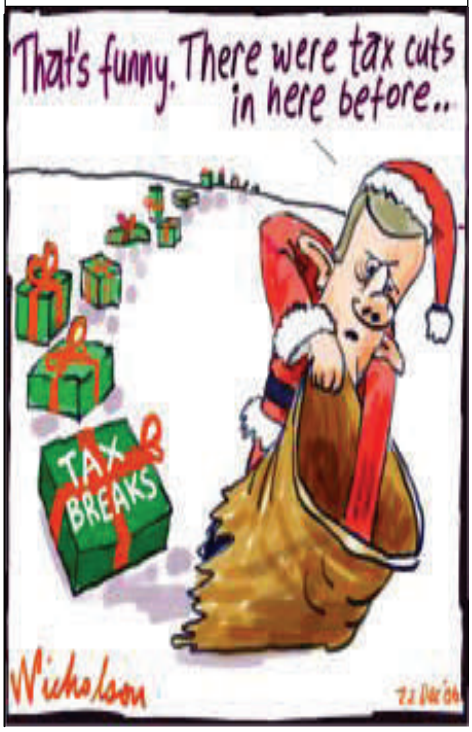


## 2. UPDATE ON SUPER REFORM

The Simplified Superannuation reform which comes into effect from 1 July 2007 includes the biggest changes to superannuation since compulsory superannuation was introduced in 1992. Some of the major changes include - changes to contribution rules, abolishment of reasonable benefits limit (RBL) and accessing tax free superannuation benefits after the age of 60.

### Changes to Contributions

An individual will be able to contribute up to $1 million undeducted contribution between 10 May 2006 and 30 June 2007. From 1 July 2007, there will be an annual limit of $50,000 for deductible contributions. (As a transitional measure, the limit for those aged 50 and over will be $100,000 per annum until 2012). These contributions are tax deductible to the employer and self employed. Non-concessional contributions (undeducted contributions) will be capped at $150,000 per annum or $450,000 over a 3 year period. Non-concessional contributions or concessional contributions in excess of these caps may be taxed an additional 45% plus Medicare Levy. In addition, concessional contributions in excess of the cap will count towards the non-concessional cap.

Superannuation contributions made by self employed individuals will now be treated in the same way as contributions made by employers for the benefit of employees.

From 1 July 2007, the co–contribution will be extended to the self employed provided they satisfy the eligibility criteria.

Employers will be able to claim a deduction for super contributions up to the age of 75; however the superannuation guarantee will continue to apply to age 70.

### Changes to Payment of Superannuation Benefits

From 1 July 2007, all superannuation pension and lump sum payments made to members (excludes members of government superannuation) over the age of 60 will be tax free.

People no longer need to retire to have access to an income stream from a superannuation fund. Benefits paid before the age of 60 will be generally taxed the same way they are now. The superannuation preservation age will not change. The preservation age has been legislated to increase from 55 to 60 between the years 2015 and 2025.

## 3. SIMPLIFIED TAX SYSTEM - STS

For small businesses not already in the STS, the following recent changes to the STS rules may be the incentive needed for your business to join:

- Removal of cash accounting method. Previously, businesses would not include business income and expenses until they have been received or paid, a disadvantage for businesses with higher amounts of accounts payable at financial year end. This is no longer required if you enter STS from 1 July 2005. Businesses already in STS before 1 July 2005 can choose to continue using the cash accounting method.
- Suspension of five year re-entry rule. This allows businesses to re-enter STS without waiting for five years.
- 25% entrepreneurs' tax offset. STS taxpayers with annual turnover of less than $75,000 can claim a rebate of up to 25% of tax attributable to their STS income.

The other benefits for STS businesses remain the same, being:

- able to prepay expenses up to 12 months in advance
- accelerated depreciation rate of 30% for assets with effective life of under 25 years
- immediate write off of assets acquired costing under $1,000.

***** Please speak to one of our staff at Veale Partners to find out if your business is eligible to enter the STS.***

## 4. OTHER BUSINESS DEDUCTIONS

### Home Office Expenses

If you have a study or spare room that is set aside primarily or exclusively for business activities, then you can claim deductions for utilities (gas & electricity), telephone, office plant & equipment depreciation and a portion of rent, mortgage interest, insurance, or council rates based on the actual expenses incurred or a deduction calculated at the rate of 26 cents per hour. Both methods require a logbook/diary to allow taxpayer to apportion between income producing activities and private/domestic use.

### Travelling Expenses

If you own, lease or hire (under a hire purchase agreement) a utility truck or panel van with a carrying capacity of one tonne or more and use it for business purposes, you may claim the total costs incurred which are business related as a travelling expense, rather than a motor vehicle expense (i.e. the cents per km and logbook method do not apply).

### Superannuation Contributions

Maximise your business deductions by contributing more to a complying superannuation fund. Please refer to the 'Superannuation Changes' section of this Newsletter for further information.

## 5. FBT/SALARY PACKAGING

Fringe Benefits Tax is paid by employers on the grossed up taxable value of benefits provided to employees or their associates in respect of their employment. Employees are not assessed on those benefits; however the benefit is reported on the employee's PAYG Payment Summary.

Some benefits are exempt from FBT and employees can take advantage of salary packaging items that are classified as exempt fringe benefits.
Such items include:

- Mobile phones primarily used in employee's employment
- Notebook or laptop computers
- Electronic diaries/ personal digital assistants
- Tools of trade
- Briefcases
- Calculators
- Relocation and recruitment expenses.

The net effect is that these benefits can be provided to the employee both income tax and GST free.

*****TAX TIP—LAPTOP COMPUTERS***

***A laptop computer may be provided to an employee FBT free every FBT year from 1 April to 31 March inclusive (Note - FBT year, not financial year).***

## 6. WORK DEDUCTIONS

### Motor Vehicle

Motor Vehicle expenses should be reviewed to ensure the most appropriate method for obtaining a tax deduction is used. The appropriate method is one that results in the largest deduction based on individual circumstances. There are four methods to work out car expenses.

### Method 1 – Cents per kilometre

The ATO has released details of the rates for claiming motor vehicle expenses on a cents per kilometre method. The rates for the 2006-07 year are:

| Description | Engine capacity of car not powered by rotary engine (cubic centimetres) | Engine capacity of car powered by rotary engine (cubic centimetres) | Rate per kilometre (cents) |
|---|---|---|---|
| Small Car | Not exceeding 1600cc | Not exceeding 800cc | 58 |
| Medium Car | Exceeding 1600cc but not exceeding 2600cc | Exceeding 800cc but not exceeding 1300cc | 69 |
| Large Car | Exceeding 2600cc | Exceeding 1300cc | 70 |

### Method 2 – 12% of original value

- Claim is based on 12% of the original value of the car
- The value is subject to luxury car limits
- Motor vehicle must have (or would have) travelled more than 5.000 business kilometres in the income year

### Method 3 – One-third of actual expenses

- Claim one-third of your car's expenses
- Motor Vehicle must have (or would have) travelled more than 5.000 business kilometres in the income year
- Require substantiation for fuel, oil and all other expenses relating to the motor vehicle.

### Method 4 – Logbook

- Claim is based on the business use percentage of each car expense
- Require logbook so you can work out the percentage
- Require odometer readings for the start and end of the period you owned or leased the car
- Claim fuel and oil costs based on odometer records
- Require substantiation/written evidence for all expenses relating to the motor vehicle.

### Travel Expenses

Travel expenses connected with your work are claimable; however if travel is partly private, you can only claim the portion that related specifically to your work.

If you are claiming travel expenses and you received a travel allowance from your employer, you must show the allowance as income in your tax return.

**Self-Education Expenses**

Self-education expenses include costs incurred for the purpose of such items as textbooks & stationery, student union fees and the decline in value of a computer used for undertaking a formal education course in order to gain a qualification for use in carrying on a profession, business or trade in the course of employment. You CANNOT claim education expenses which were incurred in order to attain a new job.

**Other Work Related Expenses**

**Deductions may be claimed for the cost of work related:**

* Telephone Expenses
* Books, Journals and Professional Libraries
* Union Fees and Subscriptions to Professional Associations
* Clothing, Laundry and Dry-Cleaning Expenses for occupation specific and protective clothing and work uniforms.

## 7. OTHER DEDUCTIONS

**Gifts or Donations**

Have you donated to a registered charity in the past financial year? The money given helping some of these worthy causes is fully tax deductible.

**Interest and Dividend Deductions**

Have you incurred any costs relating to any dividend or interest income? Account-keeping fees, management fees, debits tax and interest charged on borrowed funds are all tax deductible.

## 8. RENTAL PROPERTIES

Expenses incurred for income producing rental properties may be claimed as tax deductions in the year of payment.

In addition, both new and old properties will attract some decline in value deductions that the owner is able to claim for tax purposes.

Decline in value deductions may be available if your plant is a depreciating asset. If your depreciation asset is not plant and is fixed, or part of a building or structural improvement, your expenditure will generally be construction for Capital Works and only a Capital Works deduction will apply.

You can claim a deduction for decline in value of certain depreciating assets that you acquired as part of the purchase of your property or that you subsequently purchased for your property as follows:

- If the depreciating asset cost $300 or less, it can be claimed as an immediate deduction
- If the depreciating asset cost less than $1000, it can be allocated to a low value pool and be depreciated at a rate of 18.75% in the first year and 37.5% in the subsequent years
- If the depreciating asset cost $1000 or more, the deduction is based on its effective life.

If you prepay rental property expenses such as insurance or interest on money borrowed which covers a period of 12 months or less and the period ends on or before 30th June 2007, you may claim an immediate deduction. Otherwise, where the expense is $1000 or more, your deduction may have to be spread over two or more years. This is also the case if you carry on your rental activity as a business and have not elected to be taxed under the STS for small businesses.

## 9. REBATES

**30% Childcare Tax Offset**

The childcare tax offset covers 30% of your out-of-pocket childcare expenses for approved child care, with a rebate of up to $4,000 (indexed) per child per year. Out-of-pocket expenses are childcare fees not already covered by the Australian Government's Childcare Benefit.

The rebate is not a 'cash in hand' refund. It is a tax offset that reduces the tax calculated on your income when you lodge your income tax return.

To be eligible to claim the rebate for the 2006-07 income year, you must have:

- used approved childcare in the 2005-06 income year, (includes long day care, family day care, in home care, outside school hours care
- received Childare Benefit and
- passed the Childcare Benefit work/training/study test.

All eligible families can receive Childcare Benefits regardless of income. If you have not received Childcare Benefits, you may lodge a lump sum claim with the Family Assistance Office. Lump Sum claims for Childcare Benefits must be lodged within two years of the end of the financial year for which you are claiming.

**Medical Rebates**

A 20% tax offset may be claimed on your family's net medical expenses over $1,500. Net medical expenses are expenses you have paid during the year less any refunds you received from Medicare or a private health fund. Cosmetic operations and dental services which are of a cosmetic nature are not classified as medical expenses and are therefore excluded.

Medical expenses which qualify for the tax offset include, but are not limited to, the following:

- dentists, orthodontists or registered dental mechanics
- opticians or optometrists, including the cost of prescription spectacles or contact lenses
- a carer who looks after a person who is blind or permanently confined to a bed or wheelchair
- therapeutic treatment under the direction of a doctor
- prescribed medical aids
- artificial limbs or eyes and hearing aids
- maintaining a properly trained dog for guiding or assisting people with a disability (but not for social therapy)
- laser eye surgery
- treatment under an in-vitro fertilisation program.

**Dependant Spouse Tax Offset**

If you had a spouse (married or de-facto), a child-housekeeper (child, adopted child or stepchild who kept house for you full time) or a housekeeper during the year and were not entitled to Family Tax Benefit Part B, you may be able to claim a spouse tax offset of up to $1,610. Your spouse's separate net income must not exceed $6,721 for the year. The spouse tax offset reduces by $1 for every $4 by which your spouse's net income exceeds $282.