

JAMES. W. MANN  
& ASSOCIATES

ACCOUNTANTS

## 2015 Winter Newsletter



### Contents

End of Financial Year	1
Budget winners and losers	2
Federal Budget changes	3
Improve your tax situation	4
Make sure your SMSF is on track	4
Finding the right investment property location	5
Using Superannuation to Save	6
Business Trends in a Brave New World	7
SMSF Investments	8

## End of Financial Year

As we head in to the last few days of the financial year, we hope you have attended to any of your year-end tax planning.

If you have not addressed any of the tax end strategies as yet, and want to discuss what is available to you, STOP reading and call our office now.

### A few standard strategies include:

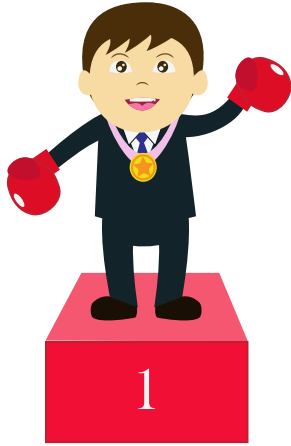
- Maximizing super contributions;
- Take advantage of the budgets \$20,000 instant write-off threshold for small business;
- Pay your income protection insurance in advance; and
- Review all your debt and consider pre-paying tax deductible expenses.

This Quarterly Newsletter looks at how the recent Federal Budget may impact you, focusing specifically on those changes that will come into effect on 1st July 2015. We look at how you can improve your tax situation, as well as making sure your Self-Managed Super Fund is on track.

We also take you through a guide to finding the perfect investment location, and we have outlined some strategies on why superannuation is such a tax effective means of saving. Finally we take a look at business trends in a brave new world as well as SMSF investments.

We hope you enjoy this Newsletter, and urge you to call for personal advice if there is any area that you need to discuss.

**General Advice Warning** Information provided on this newsletter is general in nature only and does not constitute personal advice. The information has been prepared without taking into account your personal objectives or needs. Before acting on any information in this newsletter you should consider the appropriateness of the information having regard to your objectives and needs.



# Budget winners and losers



## Budget 2015 winners

### **SMALL BUSINESS OWNERS**

Small businesses, sole traders and those starting a business will enjoy tax breaks, less red tape and accelerated asset depreciation in a stimulus package worth \$5.5 billion. The Government has proposed to increase the instant asset write-off threshold to \$20,000 (up from \$1,000), allowing small businesses to immediately deduct the business-use portion of a depreciating asset that costs less than \$20,000.

### **WORKING PARENTS**

Working parents earning between \$65,000 and \$170,000 will be about \$30 a week better off after the Government resolved to simplify childcare subsidies.

### **AUSSIES FROM THE TOP END**

A \$5 billion fund will provide loans to private enterprise to build major projects such as rail lines, ports, electricity and pipe lines. There's also \$100 million to build better transport links for the cattle industry.

### **SICK PEOPLE**

Generic medicines will drop in price under changes to the Pharmaceutical Benefits Scheme. The Medical Research Future Fund will receive \$400 million over the next four years, and \$1.6 billion in new and expensive medicines will be funded for the first time.

### **FARMERS**

Struggling farmers will be given \$300 million for drought assistance. The Government has proposed changes to allow primary producers to immediately deduct capital expenditure on fencing and water facilities such as dams, tanks, bores, irrigation channels, pumps, water towers and windmills.

## Budget 2015 Losers

### **STAY-AT-HOME & EXPECTANT MOTHERS**

Stay-at-home parents whose household income is more than \$65,000 will lose all childcare subsidies, while expectant mothers will no longer be able to claim both the government paid parental leave scheme and an employer paid parental leave scheme.

### **WEALTHY PENSIONERS**

Pensioners with assets of more than \$823,000 (excluding the family home) will no longer be eligible to receive pension payments. The threshold used to be \$1.15 million.

### **BACKPACKERS**

Foreigners who have come to Australia on a working holiday visa will no longer enjoy the \$18,000 tax-free threshold. From day one, every dollar they earn in Australia will be taxed.

### **WELFARE CHEATS**

The government expects to return about \$1.5 billion to the Budget's bottom line over four years by increasing the capability of the Department of Human Services to detect, investigate and deter suspected welfare fraud and non-compliance.

### **PUBLIC SERVANTS**

A total of \$244 million is forecast to be saved over the next four years through cuts to the education and health departments. The government will also axe 35 government bodies.

# Federal Budget changes

The following legislative changes will come into effect from 1 July 2015.

## 1) Tax cuts for small business – 1.5% tax cut for small companies and 5% discount on income tax payable for unincorporated small business activity

From the 2015/16 income year, the government will deliver a tax cut to all small businesses:

Reduction in company tax rate – The company tax rate will be reduced to 28.5% (i.e. a reduction of 1.5%) for companies with aggregated annual turnover of less than \$2 million. Companies with an aggregated annual turnover of \$2 million or above will continue to be subject to the current 30% rate on all their taxable income. Note that the current maximum franking credit rate for a distribution will remain at 30% for all companies, maintaining the existing arrangements for investors, such as self-funded retirees.

5% discount on tax payable for other taxpayers – Individual taxpayers with business income from an unincorporated business that have an aggregated annual turnover of less than \$2 million will be eligible for a small business tax discount. The discount will be 5% of the income tax payable on the business income received by an unincorporated small business entity. The discount will be capped at \$1,000 per individual for each income year, and will be delivered as a tax offset.

## 2) Claiming car expense deductions – updating car expense claim methods

Currently, an individual (or a partnership which includes at least one individual partner) can claim car expense deductions in respect of a car owned or leased by using one of four available methods outlined in Division 28 of the ITAA 1997. From the 2015/16 income year, the government will update the method of calculating work-related car expense deductions, as follows:

- The '12 per cent of original value method' and the 'one-third of actual expenses method' (which are used by less than 2% of those who claim work-related car expenses) will be removed.
- The 'cents per kilometre method' will be updated by replacing the three current (cents per kilometre) rates based on engine size, with one rate set at 66 cents per kilometre (in respect of all cars). The Commissioner will be responsible for updating the rate in following years.

## 3) Better targeting of Zone Tax Offset ('ZTO') to exclude 'fly-in fly-out' and 'drive-in drive-out' workers ('FIFO/DIDO workers')

The ZTO is a concessional tax offset available to individuals in recognition of the isolation, uncongenial climate and high cost of living associated with living in identified locations. Eligibility for the ZTO is based on defined geographic zones.

Currently, to be eligible for the ZTO, a taxpayer must reside or work in a specified remote area for more than 183 days in an income year. It is estimated that around 20% of all claimants do not actually live full-time in the relevant zone. Many of these are FIFO/DIDO workers who do not face the same challenges of remote living that the ZTO was designed to address.

From 1 July 2015, the government will exclude FIFO/DIDO workers whose normal residence is outside the defined remote areas from claiming the ZTO tax break.

## 4) Immediate deduction for professional expenses on commencing a new business

Currently, some professional costs associated with commencing a new business (i.e. black hole expenditure) are deducted over a five-year period under S.40-880 of the ITAA 1997. From 1 July 2015, the government will allow businesses to claim an immediate write-off for a range of professional expenses associated with starting a new business, such as professional, legal and accounting advice.

## 5) Release of superannuation for terminal medical condition – relaxing the release criteria

Broadly, before an individual with a terminal medical condition can currently access their preserved superannuation benefits (generally as a tax-free lump sum), two registered medical practitioners (including a specialist) must certify, jointly or separately, that the person is likely to die within a one-year period.

From 1 July 2015, the government will extend access to superannuation for people with a terminal medical condition by extending the above certification period (i.e. the period within which the individual is likely to die) to two years. This will give terminally ill patients earlier access to their superannuation entitlements.

# IMPROVE YOUR TAX SITUATION

There are many things to consider when it comes to your taxes. Here we'll give you just a few options to consider to improve your tax situation, and explain the importance of your getting your taxation documents in order.

## Defer or bring forward income for the current financial year

Consider deferring taxable income, until the start of the next financial year. For example, you may want to consider postponing the sale of assets which may incur capital gains tax. However, in some cases it might be advisable to bring forward income to the current financial year, particularly if your projected income in the following financial year is expected to result in you moving into a higher marginal tax bracket.

## Pre-pay interest and tax deductible expenses

Pre-paying interest and tax deductible expenses may allow the tax deduction to be claimed in the current financial year.

## Tax documentation

It's important that you keep all your tax documents in order. Review receipts, log books and other documentation to ensure that all records required to manage tax affairs are in order. This will help make the end of the financial year process run as smooth as possible.

## Self-Education

You may wish to consider pre-paying self-education items before the end of the income year, this includes course fees, student fees, interest on borrowings to pay for self-education costs, stationary text books etc. that are not subject to depreciation.

## Tax deductible Superannuation Contribution Limits for 2014/15

Age 18 to less than 49 at 30/6/2014	\$30,000
49 or over at 30/6/2014	\$35,000

# Make sure your SMSF is on track

Managing your own superannuation fund gives you the greatest flexibility over exactly how and where your super investments are made. But it also means that you are solely responsible for complying with super and tax laws. With the self-managed superannuation funds (SMSF) reforms which came into effect on 1 July 2014 and the end of the financial year upon us, now is as good a time as any to make sure your SMSF is on track.

## Penalty regime

A new penalty regime came into effect from 1 July 2014 for trustees of self-managed superannuation funds who are in breach of certain superannuation laws. Where breaches are identified, trustees will be personally liable for the penalty the ATO imposes. It is timely for SMSF trustees, in conjunction with the professional advisers, to rectify any outstanding breaches as quickly as possible.

## Investment strategy

Each SMSF must have an investment strategy that reflects the high level investment strategy adopted by the trustees of the fund. As part of the investment strategy, trustees are also required to consider insurance for each member of the fund. In addition to formulating and implementing an investment strategy, trustees are also required to regularly review the fund's investment strategy.

Now is a good time for trustees to review their investment strategy and ensure that it continues to be appropriate for the fund, particularly where members' circumstances may have changed.

## Value assets

It's a requirement that trustees of a SMSF value their fund's assets at market value. This does not necessarily involve trustees obtaining formal valuations from a qualified valuer, however valuations must be provided by a person familiar with valuing such assets.

# Finding the right investment property location

With interest rates at historical lows, property investment is rapidly becoming one of the most popular ways to build wealth to secure your financial future. But how do you find a property in a location that will give you good capital growth and help to ensure the investment is a success? In this article, we take a look at what makes a good investment location - both for residential and commercial properties - and how to find one.

## Location, location, location!

Choosing the right location is one of the most important factors in the success of a property investment. The right location can differ according to the kind of property investment you choose - commercial or residential. However, in both cases, the principal is to find a property that will be popular with tenants both now and into the future, as this will support your requirement both for a steady rental income and future capital growth.

## What to look for in a commercial property location

Looking for commercial property, you will need to assess the purpose of the property and if the location will be good for that particular business. Retail commercial property should be in a location that provides a steady stream of passing trade and is easy to reach via public transport or car. There should be plenty of car parking available and if possible, the location should already be enjoying good trade. Locations that are busy will create competition amongst potential tenants and this will always be good for capital growth.

For more industrial commercial properties, good road links and parking, ample space and excellent facilities are more important than passing foot traffic. You'll need to ensure that the purpose or possible uses of the building are acceptable under local council zoning laws so that there are no restrictions on the type of tenants who may use it. Importantly, you'll want to make sure the property is not too far away from a city / port or airport - particularly if it is a warehouse or manufacturing building.

## What to look for in a residential property location

You may think that it will be easier to find a suitable location for a residential property investment. However, competition for good locations is on the rise. With residential property, you'll also need to find a location that provides all the attributes a tenant will be looking for.

Apartment living is rising in popularity, particularly for working people with no families. If you're choosing an apartment,



make sure it has good public transport facilities, and is close to amenities such as restaurants, shopping and entertainment.

Houses are more popular with families, and for an investment like this, facilities such as parks, schools, and easy access to public transport are important. Suburbs that are already popular with tenants because of the quality and easy access to such facilities may be in short supply and therefore expensive, so look at adjoining locations that may be up and coming.

For both apartments and houses, the availability of work nearby for tenants will help to ensure its popularity with tenants and this adds up to capital growth potential. Properties that are a long way from employment may be less expensive and

easier to secure, however rental returns may be much lower and the potential for capital growth reduced.

## How to find the right location

All property investment requires careful research to find the best locations with optimal capital growth potential. Most people start with online research and by making contacts within reliable real estate agencies so they are alerted when investments with potential become available.

The first step is to look for areas where income levels are high and occupancy rates are good. Real estate agents and reputable buyer's agents are a reliable source of this information, but it's also a good idea to subscribe to a property market data service that will give you the information you need at your fingertips.

Try to avoid areas where future oversupply of properties may become an issue. This is particularly important when considering investment in an apartment - to avoid mistakes, check with the local council to find out how many developments are in the pipeline for the area as this may have a significant effect on values.

Houses appeal more to families and may carry better capital growth potential. Look for areas where infrastructure development is either good or planned for the near future.

Popular schools always attract competition for houses, so you may want to research which are the best schools in the areas you are considering and look for property nearby. University locations also create a reliable source of tenants and income, and often offer good entry level investment opportunities.

# Using Superannuation to Save

**Superannuation is still the best way to save for funding our retirement needs.**



The tax advantages offered by the government to encourage saving through super are significant, and despite all the changes that have been made over the last 20 years to the rules, the fees and quality of investment products is far better now than it has ever been.

There are some simple ways to help you boost your super and save tax at the same time. We have outlined some of these strategies but you will need to get started before 30 June 2015.

## **Pre-tax dollars**

If you can salary sacrifice some of your pre-tax income before the end of the financial year, you may be able to boost your super and reduce your tax bill at the same time.

There are limits on pre-tax contributions into super - \$30,000 or \$35,000 if you're 49 or over at 30/6/2014 - including the contributions your employer makes during the year.

## **Tax-free boost**

Depending how much you've earned, you may be eligible for a tax-free super deposit from the government but you'd need to have made an after-tax contribution of up to \$1,000 to your super before 30 June 2015.

If you've earned less than \$34,488, you may be entitled up to the full \$500 as a government co-contribution. The co-contribution you'll qualify for will decrease by 3.33 cents for every dollar you've earned between \$34,488 and \$48,488. And your eligibility ceases altogether once you've earned more than \$48,488.

## **For the self-employed**

You could make an after-tax contribution to your super and claim it as a tax deduction. You or your business may be able to claim up to \$30,000 tax deductible contribution to

your superannuation fund (\$35,000 if you were 49 or over at 30/6/2014).

You'll need to fill in a notice of intent form before submitting your tax return - and make the contribution before 30 June. But be aware of the contribution limits, otherwise you'll pay extra tax.

## **Lump sum investment**

Do you need to boost your super in the lead up to retirement? You may be able to make an after-tax contribution to your super of up to \$180,000 (or more using the bring-forward rule) before 30 June 2015. If you're aged 65 or older you'll need to meet the work test before contributing a lump sum so be sure to seek advice first.

## **Help your spouse**

If your spouse or partner earned up to \$13,800 this financial year you may be able to pay up to \$3,000 into his/her super and claim a tax offset of 18% - that's a tax saving of up to \$540.

If you would like to discuss any areas of superannuation do not hesitate to ask us for advice on the various options you have to choose from.

## **ATO warns about aggressive phone scams**

The ATO is warning the public to be aware of a phone scam, where fraudsters are intimidating people to make a payment for a fake debt over the phone.

Occasionally the tax office will call a tax payer, rather than direct the call through our offices, if you do get such a call ask for the caller's name, and details and call them back at the ATO switchboard on 132 869 or let us handle the request for any payment for you.

## **Early Access to Super for people with a terminal illness**

The treasurer announced that from 1 July 2015 the government will amend the provision for accessing superannuation lump sums for people suffering a terminal illness. The amendment will allow people with a life expectancy period less than 24 months to access their super.

## **FBT – Car parks, Luxury cars**

The ATO has advised that the increased daily amount from April 2015 is that car parking fees FBT exempt amount has increased from \$8.26 to \$8.37. The luxury car threshold has risen to \$63,184.

# Business Trends in a Brave New World

(based on article in Forge by David James)

International futurist Colin Benjamin sees Australia's decline in manufacturing as exposing Australian businesses to globalisation in a way they have never before experienced. Now importing instead of manufacturing, as a consequence, most Australian businesses are exposed to the impact of global volatility and competition.

This globalisation has also brought a divergence between businesses broadly over optimistic view of the future, where everything is good and they can replace their staff with new technology, and the Australian consumers'

pessimism, with a sense that living standards are falling and costs are going up.

The transfer to low-cost labour in developing countries has eroded the middle class in developed countries, and with it demand for consumer product, at a time when demographics are also shifting with more collective decision making within households, and purchases more defined by social mobility, education and personal goals.

Within this context, global trends to which Australian businesses are being exposed include:

<b>1</b>	<b>3D PRINTING</b>	With technology transforming manufacturing flexibility, with predictions of the collapse of mass production and a new era of mass customisation, with a massive change in the relationship between businesses that produce or retail goods and their customers.
<b>2</b>	<b>AGING AND HEALTH</b>	With the aging of the population, implications for spending on health and health related businesses are profound, from programs designed to care for more individuals within their own homes, to challenges in improving productivity and individualising health care across the health sector.
<b>3</b>	<b>DIGITAL EDUCATION</b>	The education model of a teacher at the front of a classroom has changed little in the past 200 years. However, with the emergence of massive online courses, and at a time we need the workforce to retrain faster, we need to educate 100% of the population well, not just the elite few.
<b>4</b>	<b>ENERGY</b>	With oil prices taking a nose dive, solar conversion efficiency doubling and improvements in battery storage capabilities, the world energy market may be turned on its head, with the prospect of turning power stations into museum pieces and the possibility of purely solar powered electric vehicles.
<b>5</b>	<b>NETWORKS</b>	Emergence of global networks has been one of the greatest changes to the business environment this century, and it continues to grow exponentially. As objects become more connected, they will to some extent, take on a life of their own. As human control is lessened, the human challenges become greater.
<b>6</b>	<b>OVERSUPPLY</b>	The imbalance between business over-supply and consumer under-demand is a global phenomenon – simply bringing products to market cheaply is no longer sufficient for a competitive advantage. The emphasis must shift to aggressive innovation and adding value to draw the consumer into the experience.

*Continued on following page.*

## Business Trends in a Brave New World (cont.)

7	<b>FINANCIALISATION</b>	One of the characteristics of late-stage capitalism is an increasing dependence on finance as a source of economic growth. In Australia in 2001 finance was less than 9% of GDP (and manufacturing 12%), whilst by 2010 finance became the largest industry sector at just under 12% (and manufacturing had fallen to 9%). This trend has continued, and unfortunately, so has the social inequity accompanying it.
8	<b>TRANSPORT</b>	Changes in the energy equation and manufacturing will have a flow on effect in the transport sector. One development is the emergence of self-driving cars, combined with the emergence of electric cars and the recharging infrastructure which will necessarily accompany it.
9	<b>LIFE SCIENCE</b>	We can already create artificial meat and self-cleaning glass, albeit very expensively. When nanotech, biotech and computing start to converge, changes in this sector will be even more dramatic. Many have predicted the emergence of the 'singularity' where technological advances become self-reinforcing and surpass human intervention.
10	<b>DATA WARS AND CYBER COMMERCE</b>	There is an intense battle raging at the moment to collect and control information on the internet – particularly consumer information. Additionally corporate cyber attacks will result in the shift of resources away from companies that know how to innovate, and into the hands of those who cannot.

**SMSF INVESTMENTS** According to the latest analysis from OneVue, SMSF allocations into direct property were consistently on the increase, with total weightings now almost making up 10 per cent of portfolios. The move from less risky investments, such as cash and term deposits, to investments such as property is driven by an increased desire for yield, coupled with historic lows on mortgage rates.

Findings of the analysis also showed unitised trusts had jumped from just over 12% in the March 2013 quarter to over 23.09 per cent in the March quarter this year. "Where markets are difficult to navigate, investors are looking to get expertise from fund managers in the management of their assets through unit trusts," said head of client strategies Alex Wise. "SMSF funds in separately managed accounts (SMAs) has remained reasonably steady at around 25 percent over the past two years. If you add the SMAs and unitised trusts together, you're now looking at almost half of portfolios in some kind of managed strategy."

In terms of fees, it's a very competitive environment in managed funds, and investors are choosing to pay for expertise.

The point being, that whilst you have a self-managed super fund, you need not do all the investment selection yourself, but choose experts to assist you when you need to.