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SALARY SACRIFICING YOUR RENTAL EXPENSES – Savings for Landlords!

In many cases, having your employer deduct tax-deductible expenses from your pre-tax salary can result in tax savings. This is particularly so for expenses incurred by residential rental property owners.

The tax benefits include the following:

- **GST** – the employer can claim the GST component of a reimbursed residential rental property expense, thus the employee only has to salary package the GST exclusive cost. In contrast, where an employee does not salary package, the GST component cannot be claimed.
- **FBT Exemption** – the benefit provided to the employee is exempt from FBT.
- **Double Deduction** – an employee is able to increase their savings by salary packaging the purchase of

rental property assets with a cost below \$300, in addition to claiming 100% depreciation. This is because the tax law considers that the expense reimbursed by the employer is not the same as the employee's depreciation claim. As a result, the employee is able to 'double-dip'.

Some good tips for property owners seeking to maximise their tax benefits. Contact us if you would like to know more.

Article by Leila Hazim



Cash Flow... still king

It has been said that “cash is king” and that “happiness is a positive cash flow”, and according to a report issued by Dun & Bradstreet (D&B) earlier this year, that is probably about right.

The report, based on external administration and liquidation information from the D&B database, details the alarming 23% rise in business failures in 2010, particularly among small business. The largest contributor to the 10,000 business failures in 2010 were small businesses with between 1-5 employees; that section experiencing a 46% increase in business failures. Businesses with between 6-19 employees experienced a 20% increase. This is in sharp contrast to a 4% overall increase during the GFC. So why the large increase?

Some have speculated that the increased business failures in 2010 were a result of the GFC – an inevitable outcome delayed by such factors as:

- The recent reversal of relaxed ATO collection policies, which allowed business to defer the payment of tax obligations;
- Government stimulus incentives – which probably only brought forward the next year's sales
- The natural time it takes for businesses to exhaust available sources of credit

The D&B report credits the relatively lower rate of business failures during the GFC to businesses tightening their cash flow policies at that time, when banks turned off the tap, and cash flow management became crucial. According to D&B, business-to-business payment terms peaked at an average of 53 days in 2010. More recently D&B has reported an increase to 55.6 days, creating concern of the potential fallout from this trend.

All this serves as a good reminder to SME's of the importance of debtor management and control over credit.

Article by Joel Hernandez



Investing for Children

We are often asked to suggest appropriate investments for children. In this article (the first of a 2-part series), we look at some of the more common options available.

First, however, a bit of sad news about tax rates for kids. From July 2011, new rules mean that income over \$416 (previously \$3,333) earned by a child from most investments will, at best, be taxed at 45%. With this in mind, what are some common options?

Bank accounts and Term Deposits – These offer a simple and effective means for children to learn the value of investing, but watch the \$416 income limit. The proposed 50% savings tax discount (applicable from 1/7/2012) may make interest investments more appealing for children.

Investment bonds – These 10 year bonds are taxed at a flat 30%, and are generally tax-free at maturity. You can make additional contributions each year up to 125% of the previous year's contribution and still cash-out tax-free after 10 years. Children under 10 years of age cannot own an investment bond in their own name, while those aged between 10 and 15 can own a policy with a parent or guardian's approval. Anyone aged 16 and over can own an investment bond.

In our next issue we will consider other possibilities, including scholarship funds, shares, and managed funds.

Article by Roslyn Schnerring



FOCUS ON THE NOT-FOR-PROFIT SECTOR –

Legislative Changes Ahead

Better targeting of Not-for-profit tax concessions

From 1 July 2011 the government intends to tax charities on surpluses generated by unrelated commercial activities that are not directed back into their altruistic purposes. Initially only new unrelated commercial activities commencing after 10 May 2011 will be affected. The measures are designed to address perceived inequities raised by the Word Investments case.

The government recently issued a consultation paper on this topic as a means to seek suggestions for how to make the tax work practically, rather than to debate its merit.

It remains to be seen whether the tax will be easy to avoid by restructuring or applying other such measures. Until the legislation is drafted, all is speculation.

'In Australia' conditions for charities

The development that came as a surprise was the redrafting of the income tax exemption provisions in the Income Tax Assessment Act. The draft has raised a number of concerns, and if finalized in its current form, will have significant implications such as:

- Removal of the current income tax exemption for prescribed organisations based in Australia but pursuing objects overseas – this currently covers all mission organisations who are members of Australian Evangelical Alliance Inc. (Missions Interlink).
- A subjective test to determine if an organisation is operating 'in Australia', in place of the more objective expenditure based test, which could cost some entities their income tax exemption.
- Organisations meeting the 'in Australia' test will:
 - Only be permitted to make gifts to other exempt entities. Therefore gifts to individuals in need, non tax-deductible gifts overseas, or to mission organisations would result in the loss of income tax exempt status.
 - Lose income tax exemptions if any governing rules are breached or if any income or assets are applied to any purpose other than the purpose for which it was established

Submissions have been made highlighting these and other difficulties with the draft in the hope that a far more reasonable document is presented to Parliament.

Article by Claire Harris



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