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AUDIT OR REVIEW?

The recent changes in regulations applying to companies and incorporated associations have seen some charities question whether they should have the normal annual audit or opt for a "review". This decision is normally driven by cost factors, and it is important to be informed about what a review entails prior to making the decision.

So what is a Review and how does it differ from an audit? A review is essentially a detailed check of financial statements by an independent accountant via a series of questions of particular officers of the organisation under a set program. This is different to an audit, which requires the gathering of information supplied by third parties in order to satisfy the auditor that the financial statements are true and fair in all material respects. The process of a review is set out in specific standards, much the same as audits. These standards have been in existence for many years.

The opinion given by an accountant in a review is essentially that he/she has not become aware of any matter that would lead one to conclude that the financial statements are not true and fair. This differs from an audit opinion which essentially states whether on the basis of the information gathered, the accounts are true and fair in all material respects. The difference is subtle but significant.

The test is now dependent on revenue only and most charities with revenue between $250,000 and $1million will have the choice of a review or an audit. It will be important to consider the requirements of your constitution, as it may have been drafted to require an audit. Some charities are recommending that members change the organisation's rules to enable a review, however others are choosing to continue to have an audit due to the additional level of assurance it provides.

If you would like to discuss your requirements please contact Claire Harris or Rob Hurrell of our Not for Profit team.

Joel Hernandez

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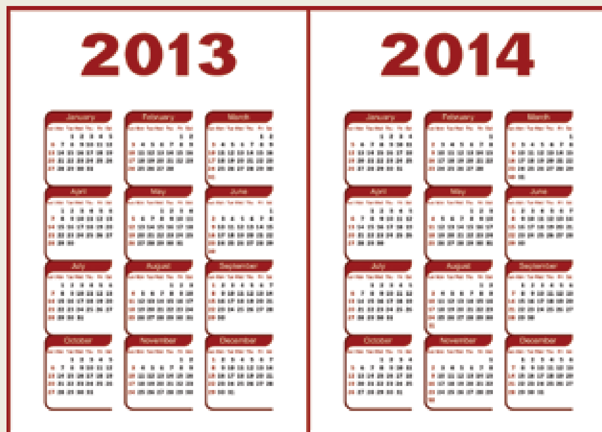
Federal Budget 2013/14



On 14 May 2013, the Federal Government released its 2013/2014 Budget. While many of the significant changes announced in the Budget focus on large companies and multi-nationals there were some changes affecting small to medium businesses and individual taxpayers. The key changes announced in the Budget are summarised below:

Abolition of Net Medical Expenses Tax Offset

For most taxpayers, the net medical expenses tax offset (NMETO) will be abolished from 1 July 2013 and taxpayers will no longer be eligible to claim a 20% tax offset for net medical expenses over the relevant threshold. There will be a transitional period for taxpayers who claimed the NMETO for the 2012/2013 income year which will allow further claims into the future.

Medicare Levy increase

The Medicare Levy will increase from 1.5% to 2% from 1 July 2014 to fund Disability Care Australia.

Cap on self – education expenses

Deductions for work related self - education expenses will be capped to a maximum annual deduction of $2,000 starting from 1 July 2014.

Increased contributions cap for over 50s

A higher contributions cap of $35,000 will apply to individuals over 60 from 1 July 2013 and to individuals over 50 from 1 July 2014. These increased caps will now apply to all individuals and not limited to individuals with super balances under $500,000.

Tax exemption on earnings supporting income streams

The Budget confirmed the income tax exemption for earnings supporting income streams from Superannuation Funds will be capped to the first $100,000 from 1 July 2014. As a transitional measure, there will be special rates that will apply capital gains made from assets purchase before 1 July 2014.

Baby bonus abolished

As of 1 March 2014, the Baby Bonus will be replaced by an increase to FTB Part A of $2,000.

Matthew Hung

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MARKET UPDATE

Financial markets have experienced a solid run in the last six to 12 months, with both higher (i.e. equities) and lower (i.e. fixed income) risk investments all performing relatively well. Despite the ongoing economic challenges that are mitigating the outlook for growth, the sound performance of both equity and fixed income investments has continued to provide a degree of insulation for investors.

Global overview

The economic malaise facing many countries remains most prevalent in Europe where the overhang from the debt crisis continues to restrict the growth outlook for the region. Unemployment remains stubbornly high at over 12%, while GDP growth has continued to deteriorate over the last year. This is continuing to restrict both business and consumer confidence, exacerbating the current weak environment. While the European Central bank has been active in providing much needed liquidity and support to the region, further stimulus measures are required and the slow growth environment in Europe is likely to be a drag on global growth through the second half of the year. Nevertheless, across the Atlantic the US economy continues to make positive strides. Through the aggressive monetary policy stance of the US Federal Reserve, both cash and bond rates have fallen to all-time lows. Other than financial markets, the approach taken by the Fed has benefited a number of areas of the US economy, principally housing where home sales and building approvals have steadily improved since late 2012. The flow on impact has been felt across the US economy with jobs growth improving. With inflation remaining benign we expect that the stimulus program will continue in the short to medium term as the US economy recovers further. In Asia, the rapid growth of the mid 2000's has certainly declined. The most notable example is in China, where the world's second largest economy, and Australia's most important export market, has witnessed a steady decline in GDP growth to its lowest level in over a decade. This has had a direct impact on commodity prices, which have fallen steadily in recent periods, a trend that we expect will continue through 2013 should the growth outlook not improve materially.

At home

After a relatively strong period of economic growth, the Australian economy has now hit a soft patch. The resulting pull back in mining capital expenditure coupled with the decline in commodity prices (through reduced demand from countries such as China) along with the high Australian dollar have together all impeded growth of late. This has resulted in the unemployment rate moving higher (now at 5.5%) through the first quarter of the year. The general weakness in the economy has seen the RBA cut official cash rates to an all-time low of 2.75% with expectations of further cuts should the economy weaken further. The fall in interest rates has provided a flip to the housing market, which continues to show signs of improvement. With the Federal election only months away, we expect that both businesses and households will remain relatively constrained, particularly as the size of the budget deficit (~$20 billion) will control spending and other government initiatives to support growth. Overall, while the Australian economy has defied many of the impediments that have hindered other economies, we expect that the economy has passed the 'high water' mark for this part of the cycle and is likely to continue to slow further through the second half of 2013.

Is your insurance structurally-sound?

It's always a smart strategy to protect your family's lifestyle with life insurance. But it's even smarter if you can get the structure right for your circumstances.

Could your Term Life benefit cover your mortgage?

Most employees automatically have some Term Life insurance provided by their employer. But have you checked how much you are insured for, and whether it would be enough to cover your mortgage and other financial responsibilities? The level of cover is often a minimum amount based on your age and/or income, and it generally doesn't take into account your debts or dependants. While some insurance cover is always better than none, the best way to get the cover you need is to get a personal insurance assessment from your financial adviser.

Put your money where your heart is

For a growing number of people, investing is not just about putting your money into something – it's about making a genuine difference.

What would you say if someone asked you if they could use your backyard to grow tobacco? For most people the answer would be a swift 'no'. And why shouldn't it be? Your resources are yours and you care about how they're used. No longer is it enough to simply make money, we want to know how that money is being made. In particular, that the money isn't being made at the expense of people and the environment. This socially-responsible mindset is changing the way people choose what they buy, which companies they want to work for, and where they invest their money. It's also opening new avenues for individuals to create a legacy that they can both profit from, and be proud of.

Making a positive difference

As an individual in a world full of challenges, the thought of 'making a difference' can be overwhelming. But in reality it's becoming increasingly easy to do your bit – regardless of what resources you have at your disposal. Here are some examples of things you can do to help maximise the impact of your good intentions.

1. Invest your super in ethical funds

Most super funds offer ethical funds among their investment options. While it's important to ensure these funds fit into your overall investment strategy, putting some of your money into these funds helps reward socially-responsible companies with your investment dollar. It can also reward you. Performance data shows that you can invest both ethically and successfully – with an ethical fund actually topping Mercer's performance table for Australian share funds in 2012.

2. Donate money out of your salary

Making tax-deductible donations to charitable organisations is a well established way to deliver financial support. But some employers now offer workplace giving programs, or salary sacrifice arrangements, to facilitate donations straight from your before-tax income. This method of donating effectively brings forward the tax-deduction you would otherwise be able to claim on these amounts in your tax return. You will need to check these arrangements with your employer, but if you're a regular donator to charity it's worth exploring – some employers may even match your contributions and boost the impact your donations can have.

3. Donate business stock, shares or other items of property

Cash isn't the only way you can donate tax-effectively. According to the Australian Taxation Office, you may also be able to claim a tax deduction for donations of property, shares, culturally significant items or even business trading stock – provided they're made to deductible gift recipients (DGRs)2.

There are some restrictions around the types of assets, how much they can be worth, and how long you need to have owned them to be tax-deductible, so check with your tax adviser before you act.

4. Volunteer your time and skills

Of course, your contribution to making the world a better place doesn't have to be financial. Your time, skills and expertise are among the most valuable assets you can offer. According to Volunteering Australia, the number of Volunteers in Australia doubled between 1995 and 2010 – from 3.2 million to 6.4 million3. And with more baby boomers entering semi or permanent retirement over the next decade, the industry is likely to get a further boost of people power. Some of the industries that are frequently in need of volunteers include emergency services, health and ageing, education, social justice, heritage and culture and sport and recreation. You can find out more about volunteering opportunities in your area at www.volunteeringaustralia.org.

5. Get your children involved

One of the most powerful things anyone can do to better their community is set another human being on the path to a life of social responsibility. That's why getting your children involved in your decision-making can have an incredible and lasting impact. Asking your children or grandchildren to research or contribute ideas to your charitable giving, or even manage a charitable trust on your behalf (see below), may be a good way to build positive attitudes and habits to carry into adulthood.

6. Set up a charitable foundation or trust

One way to give yourself and your family greater control over how your legacy is carried out is to start your own charitable foundation or trust. Holding assets in a charitable trust structure, rather than in an individual's name, means any income derived from the assets is generally not taxed. These concessions only extend to trusts that are registered with the Australian Charities and Not-for-profi ts Commission (ACNC). That means more of your money can go to the causes you care about.

Another option that is becoming increasingly popular is to set up your own Private Ancillary Fund (PAF). PAFs are similar to charitable trusts in that they give you control over how the funds are distributed, but with PAFs you are outsourcing some of the administration and compliance obligations to a trustee or co-trustee (often a Private Bank) – which can make PAFs easier and less expensive to establish than trusts.

Seeking advice to do it right

Talk to your financial adviser if you'd like to be more socially-responsible with your investment portfolio, or

structure your giving in a more tax-effective way. With good intentions and a generous spirit, you can use whatever resources are available to you to make a difference in the lives of others – ensuring more of your money ends up in the right hands.

There's always a lot of talk about super contributions towards the end of the financial year. But 30 June doesn't have exclusive rights on super strategies. In fact, leaving all of your super strategies until the end of the fi nancial year may mean missing opportunities around your contributions caps – some of which can take months to play out. Let's take a look at one strategy that's of particular interest for SMSF owners around non-concessional contributions.

What are non-concessional contributions?

Non-concessional contributions are those that come from your personal savings. Unlike concessional contributions, non-concessional contributions are not taxed at 15% by your super fund. That's because you've already paid income tax on this money when you earned it. The other key difference is that the annual limit on non-concessional contributions is much larger at $150,000, compared to only $25,000 for concessional contributions (which used to be $50,000 for people over age 50 but is now the same for everyone). Importantly, you also have the opportunity to make an even larger one-off contribution by taking advantage of the 'bring forward' rule.

What is the 'bring forward' rule?

If you are under age 65, you can potentially bring forward three years' worth of non-concessional contributions into one financial year – effectively allowing you to contribute up to $450,000 in one year. This could be particularly useful if you sell an investment property, sell your business, or maybe downsize your house and free up a large sum of cash. The key benefit of this strategy is that you pay a maximum of 15% tax on interest or investment earnings inside super, compared to your marginal tax rate outside super. And once you've turned your super into a pension account, those earnings will be tax-free. If you have more than $450,000 (and assuming you haven't already triggered the 'bring forward' rule in the past period), there is an opportunity to contribute $150,000 at the end of one financial year – making sure you don't trigger the 'bring forward' rule – and then wait until July when you can then utilise the 'bring forward' rule and contribute up to $450,000.

Can I transfer assets other than cash?

In most cases, non-concessional contributions are made in cash. However, SMSF owners can also make an 'in specie' transfer of certain types of assets – such as ASX-listed shares or a commercial property (residential property is not allowed) – as long as the market value of those assets does not exceed $450,000 at the time of contribution. Remember, the penalties for exceeding your contributions caps are harsh. You will pay 46.5 per cent tax on the excess amount, plus any excess amounts will be included in your concessional contributions cap for the year.

Could you be getting more wear out of your caps?

Even if you don't have a large amount to contribute to super, you could still use your concessional and non-concessional contributions caps to boost your retirement savings. To ensure you're managing your SMSF for maximum benefit, and staying within the rules, make an appointment with your financial adviser.

SMSF owners, hold on to your caps

If you have a Self-Managed Super Fund, you should be keeping a close eye on your contributions throughout the financial year – not just at year-end.

When you take out life insurance, it's an investment for your future. With that cover in place, you know that if you ever experience a serious accident or illness, you have financial support to help pay your medical bills and maintain your lifestyle. Compared to the premiums you pay, the benefits you can receive from life insurance can be life-changing. However, there is a way to make those premiums work even harder, and it largely comes down to the way you structure the ownership of your cover.

How do you hold your life insurance?

Let's look at the most common types of life insurance: Term Life, Income Protection, Living/Trauma Insurance, and Total and Permanent Disablement (TPD) Insurance. Each of these provides a different type of protection, so you could potentially need all of them in your financial plan. But that doesn't mean you need to hold them all in the same way. Take Term Life insurance (or 'death cover') as an example. It's one of the most common types of life insurance because it can help eliminate your debts and provide an ongoing income for your dependants in the unfortunate event of a death. Outside super, Term Life premiums are not tax-deductible to you personally. But inside super, your premiums are generally tax-deductible to your super fund which may reduce the tax deducted from your benefits.

How will your benefits be taxed?

The best structure for your insurance is not all about making your premiums more tax-effective. You also need to think about how benefits will be taxed. For example, Term Life benefits paid out of superannuation are tax-free if they are paid to a spouse, a child under 18 or a financial dependant. However, if anyone else receives them – such as an adult child or relative – they may have to pay tax. By contrast if you hold Term Life cover outside super, anyone can receive the proceeds tax-free.

Is your insurance plan up-to-date?

Your insurance needs can change over time, so you should talk to your financial adviser to make sure you have adequate life insurance cover, and that it's structured in the best way for your circumstances.

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