rdl overview

AUTUMN 2015

INSIDE • Time to review salary packaging • The Future of the ACNC • Charities missing in action? • Divorce - what it means to you (and your business) • Avoid the Land Tax sting • Protection for Small Business from 1st July

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Time to review salary packaging

The recent 2% Federal Deficit Levy has paved the way for a further increase in the rate of Fringe Benefits Tax from 47% to 49% from 1st April 2015. As a result, the "gross up" rates will increase as follows:

- Type 1 benefits 2.1463 (up from 2.0802)
- Type 2 benefits 1.9608 (up from 1.8868)

Tax-paying employers will be required to pay the extra tax, so now is a good time to review salary packaging agreements to ensure that the increase in the rate of FBT is factored into the package.

In order to maintain the current cash value of benefits received by employees of various tax-exempt entities, the grossed up annual caps have been increased as follows:

- $31,177 (currently $30,000) per employee for PBI's, which equates to a Type 1 cash benefit of $14,525; and
- $17,667 (currently $ 17,000) per employee for public and not-for-profit hospitals, which equates to a Type 1 cash benefit of $8,231.

Your RDL advisor can help you sort through your salary packaging arrangements to ensure you are getting the maximum benefit.

Joel Hernandez

Joel is Director and Specialises in Taxation and Business Services

The Future of the ACNC

Up until late last year the Federal Government continued to be quite vocal in its disagreement to many of the charitable reforms and had been proposing a far less regulated approach to the "civil sector." To this end a bill to abolish the ACNC was introduced in Parliament in March 2014 and consultation began to scope a replacement Civil Society Centre for Excellence.

In late December 2014 Scott Morrison replaced Kevin Andrews as Social Services Minister. In a significant change of focus, in February Minister Morrison indicated to Fairfax media that he has "no immediate plans" to scrap the ACNC.

Uncertainty is still the order of the day, but for the moment at least, the ACNC is safe and registered charities should continue to comply with its requirements.

Claire Harris

Claire is Senior Manager and a Not For Profit specialist

Charities missing in action?

When the ACNC commenced, the ATO transferred details of charities according to ATO records. As was expected, many of those details were incorrect so cleaning up the records has been a significant task for the ACNC staff.

No doubt, a number of the charities transferred from the ATO are no longer in operation. The ACNC has assumed this to be the case when it has received returned unopened mail and no other contact from particular charities. After public notices, 392 charities in this category had their charitable status revoked as of 19 January 2015.

There are over 1,400 charities that appear to be receiving mail but have failed to submit either their 2013 or 2014 annual information statements. The ACNC refers to them as "double defaulters" and intends to revoke their charitable status if the annual information statements are still outstanding as at 30 March 2015.

Has your charity, or a charity you know is in operation, been deregistered incorrectly? You can search www.acnc.gov.au for "revoked charities" and "double defaulters" to check. The ACNC has a separate process for reinstatement if an error has been made.

The ACNC expects to be publishing more lists in the future and has indicated that there are potentially another 7,000 double defaulting charities in their sights. To avoid any risk of seeing your charity's name on those lists, ensure that you are up-to-date with ACNC reporting requirements. With our help you can have peace of mind in knowing things are in order for your charity.

Claire Harris

Claire is Senior Manager and a Not For Profit specialist

VIP client car parking

Parking in Blackburn is becoming more difficult. In light of this we have allocated two client parking spots to make your visit to rdl. accountants easier. Your allocated parking spot is at the rear of the premises and clearly labelled "Client Parking."

Divorce - what it means to you (and your business)

Breaking up is hard to do. Beyond the emotional and financial turmoil divorce creates, there are a number of issues that need to be resolved.

What happens when there is a family company?

A ruling issued by the Australian Taxation Office (ATO) has created a tax burden for many divorcing couples that have assets tied up in a company. Previously, when a company transferred assets or cash to one of the former spouses under a Family Court order, many people took the view that the transfer was not treated as a dividend and did not trigger tax. However, in a ruling released on 30 July last year, the ATO confirmed that any settlements paid out by a corporate entity are treated as income and taxed at the relevant spouse's marginal tax rate.

If you are receiving assets from a corporate entity as part of a property settlement, it is essential that you understand the tax implications prior to settlement or a sizeable chunk of the settlement could go to the ATO.

For business owners, outside of the tax and financial issues, it is important to not lose focus on what's important to keep the business running efficiently.

What happens to your superannuation in a divorce?

A spouse's interest in superannuation is a marital asset and can be split as part of the breakdown agreement. It is important to be aware however that superannuation cannot be paid directly to a spouse unless the spouse is eligible to receive superannuation (they have met a condition of release) but it can be rolled-over into the spouse's fund until they are eligible to receive it. Laws exist to prevent taxes such as Capital Gains Tax (CGT) being triggered when superannuation assets are transferred. This is particularly important where your superannuation fund holds property.

A Court order or Superannuation Agreement is required to give effect to the agreed split in the Self-Managed Superannuation Fund (SMSF) assets or to execute a rollover eligible for the CGT rollover concession.

If you have a SMSF and both spouses are members, it is important to get advice to make sure that all of the appropriate administrative issues are taken care of. Where a divorce is not amicable, it is important to keep in mind that the SMSF trustee is required under law to act in the best interests of the fund and its beneficiaries. Anything less and the fund members may seek compensation for loss or damage.

Avoid the Land Tax sting

The Victorian State Revenue Office (SRO) continues to target owners of properties earning rental income but not paying land tax. Typically this occurs where a property that has been a residence becomes a rental property. The information exchange between government departments now flows smoother than ever, allowing rental property details in a tax return to be easily matched against SRO data. In some instances this has resulted in past years' land tax being charged in one hit – a nasty shock for any property owner.

The more common land tax exemptions are those that apply to one's home (the principal residence exemption) and to land used in a farming business (not a hobby farm). Where the use of the land changes, it is the responsibility of the land owner to advise the SRO. Unfortunately few in fact do, as they are not aware of this requirement.

There have been many such instances in the past which, without the data matching systems, have gone undetected. Not anymore, as a revenue-seeking SRO methodically works though its nest-egg of past years' uncollected land tax. Anyone renting-out a former home should be aware of the land tax obligations. If you expect that you may have inadvertently not paid past land tax, our office can help you make the appropriate disclosures so as to minimise penalties.

Joel Hernandez

Joel is Director and Specialises in Taxation and Business Services

Protection for Small Business from 1st July

Recently Prime Minister Abbott and Small Business Minister Billson announced measures designed to protect small businesses against misuse of market power by larger businesses.

At times, small businesses (including a number of our clients) have had no option but to accept terms under a "take it or leave it" contract such as might typically be presented to a retailer in a shopping centre, or which might be contained in a contract for the supply of goods to a major retailer. Some small businesses have been at the wrong end of a contract that allows a bigger business to revise the price of goods or services, or to terminate a contract, where the small business has no such right. In these types of cases, the law could declare such clauses invalid.

The measures, designed to commence on 1st July 2015, were promised by the previous Labor government, but will need the approval of the territories. If the new rules see the light of day, they will be a helpful weapon for small businesses in the "David v Goliath" battle which many will invariably face.

Joel Hernandez

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Insights

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rdl.financial planning

- **Market Update**
- **Is property still a good investment?**
- **Insurance - Can you afford not to be protected?**

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Market Update

Investors have endured volatile market conditions so far in 2015. While economic growth is improving in the US and UK, in other regions it has been more subdued.

Global overview

On the whole, growth in Europe has been restrained, after achieving some momentum in early 2014. This led to the European Central Bank starting a quantitative easing (QE) program. After missing its growth forecast, China's central bank also cut lending rates and its Reserve Requirement Ratio (RRR). In addition, central banks around the world, including Australia, have maintained an aggressive approach to monetary policy, reducing official cash rates in early 2015. It's worth noting the Danish central bank cut rates on three separate occasions in January after the Swiss National Bank's decision to break the Swiss franc/euro currency peg.

There has also been a sharp decline in commodity prices, reflecting a weaker global economic environment. Oil, iron ore, copper, gold and natural gas are some of the commodities whose values have fallen over the last 12 months. At the same time there has been an increase in supply from producers in an attempt to reduce the number of higher marginal cost competitors in the market. The challenge with this strategy is the extent to which producers can tolerate lower absolute prices in an environment where inventory levels are rising. While lower commodity prices have a positive effect on the broader global economy through cheaper input costs for businesses and cheaper goods for consumers, to date the impact has been minimal as consumers and business remain cautious.

There is also a mixed outlook for growth on a regional basis. The US and UK economies continue to maintain steady momentum. But the short-term growth outlook remains opaque for Europe, Asia – including China and Japan – and some emerging market economies such as Brazil. As a result the World Bank has reduced its growth forecast for 2015 to three per cent, the lower end of its range.

Overall, however, emerging market economies are set to drive growth this year. This should be positive for higher risk assets such as emerging market equities. But returns are likely to be volatile and investors should be prepared to hold positions for an extended period to achieve high values for assets in this category.

At home

Financial markets have experienced gains stemming from higher liquidity as a result of central banks' monetary easing policies. Bonds and equities did well throughout 2014. From a global perspective the fall in the Australian dollar has delivered additional returns for investors. We expect the Australian dollar will continue to trade lower through 2015. The 'steady as she goes policy' adopted by the Reserve Bank of Australia (RBA) since September 2013 has now changed, with the bank reducing the official cash rate by 0.25 per cent to 2.25 per cent in February, an all-time low. In its statement the RBA noted while the cash rate had remained steady for an extended period, based on updated forecasts of both domestic and global factors it felt a further reduction was appropriate.

Now having played its hand, the challenge for the RBA is that it will be difficult to stop at just one cut. In our view, the decision had much to do with other global central bank decisions in January and market perception as opposed to a real need. What is clear, however, is that the economy is moderating and the growth outlook remains muted. This has seen inflationary expectations drop below the RBA's two per cent target level.

While low inflation numbers can be linked to a decline in commodity prices, lack of good governance and policy remains the sticking point. More needs to be done to encourage an environment in which businesses are prepared to invest and seek out growth opportunities. The unemployment rate has also steadily risen, putting further pressure on both policy makers and the RBA.

Looking forward

Overall, we believe the domestic economy will continue to slowdown. The level of political uncertainty across a range of areas is reducing the ability of the economy to transition from the mining boom. Lower cash rates can only be of limited use if they are not supported by proactive and constructive policy.

From a broader market perspective the near term fortunes of the economy will be linked to the global macro outlook, especially Chinese growth, as much as to domestic issues. Consequently the medium term outlook remains challenging.

Is property still a good investment?

Investment properties in Australia are being hit by falling rental earnings. So is it possible to still make money from investment properties? We consider the challenges and opportunities of the current Australian property market and how to navigate both.

Jumping on the investment property bandwagon

Australian investors are continuing to enter the market in large numbers, especially in Sydney and Melbourne; driven in part, by low borrowing costs and rising prices, which are both very attractive. Home loans to landlords now account for more than half of all mortgages, the highest share on record.

Increasing property prices

House prices in major Australian cities rose 8.2% in the year through December 2014, according to CoreLogic Inc – the largest property data provider in the world. They have climbed 12.4% in Sydney (the most of all Australian cities) and 7.6% in Melbourne. So in terms of capital gains – in the major cities at least property is still performing well as an investment.

Falling returns

The downside is that these higher prices coincide with an increase in the supply of homes for lease, which is causing rental earnings to fall.

A quick snapshot across eight states and territory capitals in October 2014 shows rental earnings dropped to 3.7% for houses and 4.5% for apartments. That's a drop from 4% and 4.7% a year earlier, CoreLogic figures showed. The result is that investment properties are getting more expensive to buy and returning less cash flow through rent.

Warnings

There's been a lot of debate about the Australian 'housing bubble' ; the argument being that the current property market is overinflated and prices are due for a fall. Late last year, The Reserve Bank of Australia warned that the increase in investor lending might be, "a sign of speculative excess". The implication is that investors may be paying too much and are at risk of a period of negative equity. This timed with falling rental earnings, makes investing in property look increasingly high risk in the short term.

Six tips to consider

If you are an investor or looking to invest in property, here are six things you can do to mitigate some of this risk.

1. **Get some up-to-date advice.** Revisit or even rethink your investment strategy by speaking to your financial adviser. Your financial goals will determine whether property is good for you in the short and long term.

2. **Take a long-term view.** All types of investments go through cycles of growth and retraction – property is no different.

3. **Do your research – look for hot spots.** Having the right location is key when looking to invest in property. You should be on the look out for areas that have future growth potential. These areas might not be fashionable but they make good investment sense. On top of this, you may be able to purchase an affordable property that can potentially grow in value in a short period. Also consider regional and commercial property, which at times can perform better as an investment.

4. **Don't get in over your head by borrowing too much or overcapitalising.** Do the math between what you need to spend on a property, the rental returns and the projected capital gains. Make sure you have a plan about how to cover the shortfall if interest rates go up.

5. **Make sure you're getting all the value you can through gearing and other tax strategies.** Again speak to your financial adviser about how to maximise these.

6. **Diversify your investments.** A balanced investment portfolio should include a range of asset classes, not just property. In fact property, depending on your stage of life and financial goals, may not be the best choice for you. Again, get good advice.

Can you afford not to be protected?

If you travel, especially overseas, you know the importance of travel insurance – lost luggage anyone? And if you have a car or motorbike then you know it's a no brainer to insure your wheels

But there are other kinds of insurance even if you're young, single and healthy today that are important to help you protect your lifestyle and independence.

Protect your income

Income Protection can help you pay your rent or mortgage, cover medical expenses and bills and continue to fund your lifestyle if you can't work because you become sick or injured. If you're not sure you need Income Protection insurance, ask yourself how long you could continue to meet your day-to-day living expenses if you suddenly were unable to work for a lengthy period of time?

Trauma insurance

Another insurance worth noting is Trauma insurance which provides a lump sum payment when you suffer a major medical illness. Trauma insurance can help ease the financial stress of major expenses to give you financial peace of mind so you can focus on what's truly important – your recovery.

Save money

There are many good reasons why it is essential to take private health insurance especially while you're young and healthy. The first is that it can save you money. Private health insurers offer Lifetime Health Cover which is designed to encourage people to take out hospital cover early in their life and keep it.

Because of this, health insurers must charge extra to people who join a hospital policy after the age of 31.

The extra charge is 2% on top of the normal premium for each year you are over 30 years of age. For example:

- If you don't take out hospital insurance until you are 40 you'll pay an extra 20%.
- If you wait until you are 50 it's an extra 40%.

Avoid the surcharge

The Medicare Levy Surcharge (MLS) occurs if you don't have private hospital cover. This means for most people who are single with a taxable income over $90,000 ($180,000 for couples, families and single parents) the government will charge an extra 1% in tax.

The MLS will increase to 1.25% if you earn over $105,000 ($210,000 for couples, families and single parents) and 1.5% if you earn over $140,000 ($280,000 for couples, families and single parents).

According to iSelect – the private health comparison website, depending on your circumstances, you may be able to buy basic hospital cover that is cheaper than the surcharge that has to be paid in additional tax.

Apart from saving money, having to self fund medical care, for example knee surgery after that stack skiing last season can cause a serious dent in your savings.

While taking out insurance is a personal choice, you must remember that nothing in life is predictable and you should look at how you can protect yourself and your family in those uncertain times. For the best advice about which insurance is best for your circumstances, please talk to your rdl financial adviser.