rdl.overview

ISSUE ONE APRIL 2011

- *Natural Disasters: The impact on your investment portfolio*
- *Have we changed?*
- *Fraud: It won't happen to us*
- *Providing certainty for Trusts*
- *What's better for me...new or old van?*

THE IMPACT ON YOUR INVESTMENT PORTFOLIO NATURAL DISASTERS:

—There has been a string of disasters in the world this year, but just how exactly will the market be affected, in the aftermath of these tragedies?

After initially taking account of the terrible human tragedy of these disasters many are looking at the likely impact these disasters have on the financial activity and investment markets around the globe and in Australia.

The economic impact of all natural disasters tends to follow a similar pattern. The initial impact is negative; production is disrupted due to damage to factories, power supply, transport infrastructure, confidence and to homes. This means workers are more focused on survival. This then gives way to recovery as rebuilding kicks in and production returns to normal.

For Japan, being Australia's second largest trading partner, the road to recovery may be longer than past natural disasters due to the scale of the disaster; Japan's slow recovery since the global financial crisis (when compared to US and Europe); high domestic debt and an aging population.

Overall the outcome is likely to be negative for insurers and uranium producers, but positive for gas and thermal coal producers. As a result, it should ultimately be positive for commodity producers, such as Australia, as rebuilding demand kicks in.

In relation to the impact natural disasters will have on investment portfolios, it is important to have a mix of asset classes including Australian Shares, International shares, Property & Infrastructure, Fixed Interest and Cash. Getting this mix right is critical for each of our clients to shield them from the short term impact of these events. As portfolio returns come from many sources, a mix of asset classes and geographic regions will reduce the risk of investing.

Have we changed?

One of the important conditions of income tax exempt, or deductible gift recipient status is that you advise the ATO in writing should your organisation cease to be entitled.

So are you still entitled to these endorsements? When was the last time you checked? Has your organisation changed?

Although there is no guidance within Taxation Law as to how often an organisation should review their circumstances, we endorse the Australian Taxation Office (ATO) recommendation of an annual self-review.

The ATO website has a non profit section with worksheets specifically designed to help with this self-review.

Follow the links from www.ato.gov.au/nonprofit under "find out about tax concessions and endorsements."

Should your organisation ever be investigated by the ATO, this is one thing they will be sure to look for so perform the review and get the paperwork on file. Then put it in your calendar for an annual review.

Fraud: It won't happen to us

…but if it does, our annual audit will find it won't it?

Surveys of the not-for-profit sector indicate that most organisations recognise fraud as a problem for the industry, but not for their organisation. And of those organisations most believe that the external audit will pick up any fraud.

This is a dangerous attitude:

- Australian Auditing Standards clearly state that the primary responsibility for the prevention and detection of fraud rests with those charged with governance and management.
- Audit procedures are not designed to detect all types of fraud, only that which could result in material mis-statement of the financial report.
- Generally an external audit is an annual event so even if picked up during the audit, fraudulent activities may have gone undetected for more than 12 months.

Strong internal controls and an ethical culture that encourages whistle blowing are the best defences against fraud in your organisation. An external audit is no substitute.

Providing Certainty for Trusts

Since the court case Commissioner of Taxation v Bamford in December 2009, doubt has been cast over the way in which trust distributions are to be handled. Many issues were raised over the last year and debate has arisen in relation to how trust distributions are to be dealt with.

In March 2011, the Assistant Treasurer announced that the Government will adopt the following two recommendations of the Board of Taxation to clarify the Tax Law for over 600,000 Trusts in Australia:

- **Better align the concept of 'income of the trust estate' (meaning the distributable income of the trust) with the tax law concept of 'net income of the trust estate' (taxable income).**
- **Provide an opportunity to stream capital gains and franked dividends including franking credits to particular beneficiaries.**

The above changes may come into effect from income year 2010-11 and onwards. The Assistant Treasurer has said that, "it is important to implement the Board's recommendations so businesses and individuals using Trusts can continue to do so with confidence and enjoy more certainty, particularly in relation to streaming of Capital Gains and Franking Credits."

However, the Government is aware that the changes envisaged will not resolve all the prevailing issues in the light of the High Court's decision in Commissioner of Taxation v Bamford

Consequently, the proposed changes have been identified as 'interim' measures to fix the critical issues and to bring about a certainty prior to a general re-write of the trust provisions into the 1997 Tax Act at a later date.

WHAT'S BETTER FOR ME... NEW OR OLD VAN?

— There are many things to consider when making any business decision. Ignoring the tax consequences prior to any asset purchase can be costly. However, evaluating a decision based solely on gaining the optimal tax benefits can be equally costly.

Question: We have a small courier business and we are looking to buying a commercial van to be used for deliveries. It will be used predominately for business. Should I go for the most expensive car to maximise my tax deductions or go for a cheaper car which will in turn give me less tax deductions?

Answer: The question raises an important principle that all small business owners should understand. A business decision made purely on maximising tax deductions may not necessarily be the best outcome. Where there are a range of choices, the first consideration should be which option has either the best net benefit or the least net cost. Applying this principle to the question some things to consider will be:

- What are the minimum requirements for my vehicle (i.e. size, carrying weight)
- What are the costs to run over time (i.e. petrol consumption, servicing)
- What is the resale value and
- Is the vehicle reliable

As you are buying a commercial vehicle the depreciation rules are slightly different for tax purposes. Cars have a depreciation cost limit of $57,466. This means where a car costs more than the limit, depreciation is limited to this amount. Commercial vehicles have no limit placed on the cost when it comes to claiming depreciation.

As you are buying a commercial van, the tax substantiation rules don't apply. This means you will be able to claim 100 per cent of the running costs of the van.

So in making a decision on a new or used vehicle for your business, make sure you weigh up all your options. The chances are that you will benefit more from purchasing a cheaper vehicle that scores well on the relevant criteria. If in doubt contact us for more advice.

CONTACT DETAILS

60-64 Railway Road,
Blackburn 3130
PO Box 189, Blackburn 3130

t: (03) 9878 1477 f: (03) 9894 1798

contact@rdlaccountants.com.au
rdlaccountants.com.au