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ISSUE TWO JUNE 2011

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FEDERAL BUDGET

Some of the highlights from the recent budget, as outlined in the BT Financial Group Tech Bulletin, include:

- No changes to personal tax rates
- Removal of Low Income Tax Offset for minors on unearned income
- Changes to Fringe Benefits Tax treatment of motor vehicles
- Small Business instant write off

Low Income Tax Offset (LITO)

From 1 July 2011, those under the age of 18 will no longer be eligible to access the LITO, currently worth a maximum benefit of $1,500.00, to reduce tax payable on their unearned income (ie effectively from non-employment sources). The change does not impact on income earned from inheritances or distributed from testamentary trusts.

Fringe Benefits Tax - Cars

The calculation of an employee's car fringe benefit will be simplified from Budget date with the Government set to replace the four current statutory rates (7% to 26%) with a single flat rate of 20%, which will apply regardless of the distance driven in a year. This will end the practise of employees driving for long distances towards the end of the year to

reduce the taxable value. The changes will benefit those who travel less than 15,000 km but disadvantage those who travel over 25,000 km.

Small Business Instant Write off

You are a small business if you carry on a business and your turnover is less than $2 million.

Small Businesses that purchase a vehicle on or after 1 July 2012 will be able to immediately write off up to $5,000.00 of the purchase price in the first year.

The measure complements the previous reforms for small business, also set for introduction from 1 July 2012, including:

- an immediate write off on all assets above $5,000.00 (except buildings) in a single depreciation pool at 30%
- a reduction in the company tax rate to 29% for small business tax payers

Some other highlights of the Budget are outlined in the current Count Report Issue no 104.

So you think you're covered:

How would you pay off your mortgage?

The average mortgage in Australia is $354,000. However, only 6% of Australians have Income Protection Insurance and 3% have Trauma Insurance in place. In the event that a person is unable to work, how would this debt be continued to be paid off?

Income Protection and Trauma Insurance can work side by side to relieve the stress of everyday expenses, including paying off a mortgage.

How much is covered?

The purpose of Income Protection is to replace a person's income that may be loss due to illness or injury. The maximum cover is generally 75% of income which can be used to meet day to day expenses. Trauma Insurance can be used to cover the 25% gap of Income Protection. This is paid as a tax free lump sum and can be used to pay off some or the entire mortgage, depending on how the cover is taken out.

What is covered?

When a person is unable to work due to sickness or injury, Income protection is paid after a pre-determined waiting period.

Trauma Insurance is paid once a person survives 14 days past the occurrence of a specified medical condition or medical event. Trauma Insurance covers an extensive list of medical conditions and events, some of which include:

- Heart disorders such as: heart attack, out of hospital cardiac arrest or open heart surgery
- Nervous System Disorders such as: stroke, major head trauma or Multiple Sclerosis
- Body Organ Disorders such as: cancer, blindness or Chronic Lung Disease
- Blood Disorders such as: Advanced Diabetes

If you have a mortgage, a review of your Income Protection and Trauma Insurance is vital. This is to ensure that you have adequate cover to protect one of your biggest assets – your ability to earn an income. Please contact our office for any further information.

Knowing when to change your business structure

Successful fast growth businesses typically operate through a mix of company and trust structures. They create separation, tax efficiency, help in risk management and allow for orderly transfer at the appropriate time.

The structure should be consistent with the expectations of the business – be they large or small. So, the question is what are the signs that it is time to make a change?

1. *When there is significant value building in your business*

This may be reflected by an increase in assets held or the increasing value of the business over and above the value of its assets (i.e. goodwill). With growing value, methods of risk protection should be considered. Ideally, significant capital growth assets of the business should be separate from the operating structure for asset protection.

2. *When you can see a material increase in your tax exposure*

As the business grows, so too should the profits. Typically cash lags profits, so you might be dealing with tax on profits not readily available to you. The right structure can help to manage the timing differences between profits and cash.

3. *When there is an expectation to sell your business or introduce other shareholders*

To maximise your access to tax concession and in particular the CGT small business concessions, you need to have your structure right, in advance of any changes.

YOUR SELF MANAGED SUPER FUND (SMSF) AND OWNING PROPERTY

One advantage of a Self Managed Superannuation Fund (SMSF) is that you have control over the Fund's investment strategy, which may include investing in real property.

However, the SMSF must comply with numerous rules regarding owning real property and following are some common questions that need to be considered first:

1. ***Can I move my existing rental property into a SMSF?***

Your SMSF cannot acquire property from a related party unless the rental property is used in a business (ie commercial property). A related party includes family members and in some cases business associates.

2. ***Can my SMSF own a residential property?***

The Fund can only purchase a residential property from a non-related party at its market value. The members and related parties cannot live in the property, so its tenants must also be non-related third parties.

3. ***Can my SMSF own my business premises?***

There is nothing to prevent the Fund from purchasing a commercial property – even from a related party. The SMSF would essentially be the 'landlord' and your business would be the 'tenant'. However, the lease must be on commercial terms, including rent being paid at market rates. This is a very effective tax strategy as the rental income would be taxed at a maximum of 15%, with no capital gains tax on selling the commercial property, if the SMSF is in pension phase.

4. ***Can my SMSF borrow money to buy property?***

Generally speaking, a SMSF cannot borrow money to acquire investments. However, recent changes in legislation have allowed SMSF to borrow to acquire property – subject to certain very complex and strict rules.

Please call us for professional advice to determine whether this would be worthwhile in your situation.

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