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LEADING ACCOUNTANTS AND BUSINESS ADVISERS

DFK ANZ BUSINESS & TAXATION BULLETIN

keeping you informed summer 2014

SELF MANAGED FUNDS – NEW ATO PENALTIES

The ATO has released new penalties from 1 July 2014 that can be imposed on self-managed fund trustees for a range of breaches of the law. This includes breaches that may be inadvertent or accidental. The penalties range from $850 to $10,200 depending on the breach. The monetary penalty will apply to the trustees personally and cannot be paid directly from the super fund's assets. Examples include:

BREACH	PENALTY
Loan to a member of the fund	$10,200
Super fund borrowing	$10,200
Loan to, or investment in a related party in excess of 5% of assets	$10,200
Breach of the prescribed standards e.g. Contribution standards	$3,400
Failure to prepare accounts and statements in a year of income	$1,700
Failure to keep minutes and records	$1,700

Under these new rules we expect that the ATO will adopt a standard practice of imposing the administration penalties and require the super fund trustee to prove that the imposition of the penalty was unwarranted or unjust. If the trustee disagrees, they would need to lodge an objection for the penalty decision to be reviewed. Consequently, trustees will need to be more cautious in ensuring they meet all compliance requirements.

IN THIS ISSUE

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SELF MANAGED SUPERANNUATION FUNDS – CONTRIBUTION LIMITS 2014–15

New Contribution limits with effect from 1 July 2014.

CONCESSIONAL CONTRIBUTION LIMITS

AGE ON THE LAST DAY OF THE FINANCIAL YEAR	2013–14	2014–15
Under age 50	$25,000	$30,000
Over 50 but less than 60	$25,000	$35,000
60 years or over	$35,000	$35,000

NON-CONCESSIONAL CONTRIBUTION LIMITS

AGE AT ANY TIME IN THE FINANCIAL YEAR	2013–14	2014–15
Under age 65	$150,000	$180,000
65 years and over	$150,000	$180,000

MATURE AGE WORKER OFFSET

The mature age worker offset was abolished on 4 September 2014. This offset was previously available to a person born before 1 July 1957. From 1 July 2014, a payment of up to $10,000 will be available to employers who hire a mature aged job seeker, aged 50 years or over who has been receiving income support payments for at least six months.

SUPERANNUATION GUARANTEE CONTRIBUTIONS

On 1 July 2014, the compulsory superannuation guarantee contribution for all employees increased from 9.25% to 9.5%. The rate will remain at 9.5% until 30 June 2021 and then increase by 0.5 percentage points each year until it reaches 12%. Additionally, any employer with 20 or more employees is required to commence payment and reporting of superannuation contributions through SuperStream electronic reporting.

DATA MATCHING

The ATO uses data matching as powerful law enforcement tool. They ensure compliance by obtaining information from various third party sources with information provided on tax returns, activity statements and tax return schedules. This enables the ATO to determine where people and businesses may not be reporting all their income.

For this reason it is important to ensure the following is done in an accurate and timely manner.

- Timely lodgement of activity statements and tax returns
- Accurately declare all income and claim offsets

FIRST HOME SAVER ACCOUNTS ABOLISHED

From 17 May 2014 new first home saver accounts opened will not be able to access any concessions or the government contribution. Eligibility will cease from 1 July 2014 however existing account holders will continue to receive the government contribution for personal contributions made during the 2013-14 income year. Restrictions on withdrawals will be removed from 1 July 2015.

COMPANY LOSS CARRY BACK REPEAL

Previously companies that had tax losses in the 2012-13 income year were able to carry these losses back against their income tax liability from the 2011-12 income year, producing a refundable tax offset known as the loss carry-back tax offset.

This offset has now been repealed effective 30 September 2014. The repeal starts from the 2013-14 year. Companies that have claimed the loss carry-back tax offset in the 2013-14 year and are now no longer eligible will be contacted by the ATO and they will remove the offset from the affected assessment and send the company a notice of amended assessment.

GIC & SIC RATES

The ATO has published general interest charge (GIC) and shortfall interest charge (SIC) rates for the second quarter of the 2014-15 income year. The GIC annual rate for October – December 2014 is 9.63%, and the SIC rate is 5.63%.

FINANCE ARTICLE TIPS ON PAYING OFF A HOME LOAN & SAVING INTEREST

With historically low interest rates, now is a good time to take stock of your finances. Many people want to achieve their goal of home ownership and now is as good a time as any to look at some of the measures that can see this happen sooner rather than later.

Make extra repayments

When you boil it right down, all of the strategies for paying off your loan more quickly involve making extra payments and/or more frequent repayments. You can do this by making a one-off or lump sum repayment to your loan, or by increasing your regular repayments. There are a number of strategies for doing this. Making extra repayments whenever you receive extra income is a valuable habit. For example, when you receive your tax refund put the payment straight towards repaying your home loan.

One simple way to increase repayments is to take your monthly repayment, halve it and pay each fortnight. This is equal to an extra month's repayment per year. By making small lifestyle changes like not buying your lunch or buying one less coffee per day, you can add an extra $30 per week to your repayment. You won't notice the difference but your home loan will.

Know your fees

Lenders charge different fees, so be conscious of any incidentals that may not be captured in the interest rate.

Offset account

An offset account is a deposit account that is linked to your home loan. The funds in your offset account do not earn interest. Instead the balance in your offset account is offset against the balance of your linked home loan, reducing the amount of interest you pay in relation to your home loan.

Review your loan

Is your loan still right for you? Are you paying for features you don't use or do you need more flexibility? Does your loan let you make extra repayments or does it penalise you for paying your loan off early?

Switching to a 'no-frills' loan, requesting a 'professional loan package' or consolidating your accounts may reduce the interest rate or fees payable on your loan. Switching to a fixed rate loan is a common way for borrowers to obtain certainty in times of rising interest rates.

Beware of interest only

Don't select an interest-only loan if you want to repay it quickly. Always opt for principal plus interest. When borrowers ''set and forget'' their mortgage, they usually pay too much interest and have the debt longer than they should.

There is no secret to paying your home off sooner, you just need to make sure you have the right loan for your situation, set up in the right way.

In today's competitive loan environment, finding the right finance can make all the difference to your goals.

FEATURE ARTICLE NEW DEEMING RULES FOR ACCOUNT BASED PENSIONS COULD MEAN YOU MISS OUT ON THE AGE PENSION

From 1 January 2015, all financial assets will be assessed under the Centrelink deeming rules including income from superannuation account based pension income streams. These rules will determine whether you are eligible to receive the Age Pension or the Commonwealth Seniors Health Card.

WHAT IS DEEMING & HOW DOES IT WORK

Under the current arrangements, when Centrelink assesses your eligibility for an income support payment, you get assessed under the Assets Test, and the Income Test. Under the Assets Test, nothing changes. If you have an account based pension then all of your member balance counts towards the Assets Test. It is the Income Test where the significant changes and impacts will be felt most.

Under the current arrangements if you own financial assets such as shares and cash on term deposits then the income counted towards the income test is not the actual interest and dividends received but rather what is known as deemed income. Deemed income is when you are assessed on an assumed rate of return regardless of whether you actually receive that rate of return.

From 1 January 2015, when assessing an individual's eligibility for the Age Pension your account based pension, will not only be assessed under the Assets Test but also assessed under more stringent guidelines under the Income Test.

I thought my account based pension was already assessed under the income test

Yes, your account based pension is already assessed under the income test, however, the impacts of the assessment will be much tougher under the new deeming rules. Under the Income Test, the income stream (pension payments) you are taking from your account based pension are generally assessed under the Income Test.

However, under the current arrangements, you are also entitled to a deductible amount that offsets the income. The deductible amount is calculated based on your life expectancy and represents a return of capital effectively ensuring that your superannuation account balance is not counted in both the Income and Assets tests.

How will the changes impact on my current situation

We have provided a worked example of the impact the new deeming rules would have on a couple currently receiving the Age Pension.

Paul is 67 years old and has a superannuation account based pension. He also receives a part pension from Centrelink. Paul's wife Mary does not have any superannuation and receives an Age Pension from Centrelink:

As the example illustrates the impacts can be very significant. Under the current assessment criteria, Paul's account based pension would be assessed as Nil under the income test because his deductible amount exceeds the income he has drawn. However, from 1 January 2015 under the new deeming rules, Paul will be assessed $19,806 under the income test.

SO WHAT ARE MY OPTIONS

If you commenced an account based income stream prior to 1 January 2015 you will continue to be assessed under the current income test criteria provided that you currently receive a pension, benefit or income support payment from Centrelink. These grandfathering provisions will continue to apply for as long as the account based pension continues.

It should be noted that the grandfathering provisions will be lost if the account based pension ceases or if you cease to be an income support recipient from 1 January 2015. An account based pension ceases in any of the following circumstances;

- Death of the pensioner unless a reversionary beneficiary automatically continues the pension and is a Centrelink income support recipient at the time of death of the primary pensioner.
- Internal rollover or refreshing of the account based pension.
- Aggregating several different account based pensions.
- Rolling over an account based pension to another provider, including to or from a Self Managed Superannuation Fund and
- Potentially when adding or removing a reversionary beneficiary as this requires a full commutation of the account based pension.

If you commence an account based pension on or after 1 January 2015, the new Centrelink deeming rules will apply and your balance assessed at the applicable deeming rates at the time.

THESE CHANGES ALSO IMPACT THE COMMONWEALTH SENIORS HEALTH CARD

It is important to realise that the new deeming rules will also be in place when accessing an individual's entitlement to the Commonwealth Seniors Health Card. From 1 January 2015, you will be assessed under the income test using the same deeming rules as the Age Pension test, to determine your eligibility. Like the Age Pension test, if you have commenced an account based pension and are already holding a Commonwealth Seniors Health Card, you will be assessed under the current criteria.

Speaking of the Commonwealth Seniors Health Card under the current rules, holders of the card have their card cancelled if they go overseas temporarily for more than six weeks. From 1 January 2015 the period of absence will be increased from 6 weeks to 19 weeks before your card is cancelled.

	CURRENT CENTRELINK ASSESSMENT		CENTRELINK ASSESSMENT UNDER DEEMING RULES (EFFECTIVE 1 JANUARY 2015)	
Superannuation Balance	$600,000		$600,000	
Minimum Pension Payment (5%)	$30,000		$30,000	
INCOME ASSESSED				
	Income drawn	$30,000	First $79,600 of balance deemed to earn 2%	$1,592
	Less deductible amount	$35,314*	Remaining balance deemed to earn 3.5%	$18,214
ASSESSED INCOME		$0	ASSESSED INCOME	$19,806

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UPCOMING KEY DATES & DEADLINES

28 OCTOBER 2014	Superannuation Guarantee Contributions due for payment for July – September quarter
21 NOVEMBER 2014	October Monthly Activity Statement due for lodgement and payment
25 NOVEMBER 2014	July to September 2014 Business Activity Statement due for electronic lodgement and payment
1 DECEMBER 2014	Due date for payment of income tax for returns due on 31 October 2014
1 DECEMBER 2014	2014 Income Tax payment due for large/medium companies and super funds (lodgement of the return is due 15 January 2015)
21 DECEMBER 2014	November Monthly Activity Statement due for lodgement and payment
15 JANUARY 2015	2014 Income Tax Return Lodgement due for large/medium companies and super funds
21 JANUARY 2015	December Monthly Activity Statement due for lodgement and payment
28 JANUARY 2015	Superannuation Guarantee Contributions due for payment for October – December quarter
31 JANUARY 2015	TFN report due for lodgement for closely held trusts for TFN's quoted to a trustee by beneficiaries in quarter 2014/15
21 FEBUARY 2015	January Monthly Activity Statement due for lodgement and payment
28 FEBUARY 2015	2014 income tax lodgement for new registrant taxable and non-taxable large/medium for all entities other than individuals.

FOR MORE INFORMATION & FUTURE NEWSLETTERS

For more information on anything contained in this bulletin please telephone or email to our details below.

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For further information or enquiries about any of the latest business and taxation topics discussed in this newsletter, please contact the Directors and team at DFK ANZ.

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