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LEADING ACCOUNTANTS AND BUSINESS ADVISERS

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DFK ANZ BUSINESS & TAXATION BULLETIN

keeping you informed autumn 2013

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LEADING ACCOUNTANTS AND BUSINESS ADVISERS

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SIMPLIFIED DEPRECIATION RULES FOR SMALL BUSINESS

From 1 July 2012 there have been some significant changes to the depreciation rules for businesses with less than $2million aggregated turnover.

The threshold for instant asset write off has increased from $1,000 to $6,500 and can be claimed when an asset starts being used for a taxable purpose.

A deduction of $5,000 is available when a new vehicle is purchased with the balance claimed through a small business pool at 15% depreciation in the first year and 30% in subsequent years.

All new assets over $6,500 can be pooled and depreciated at a 15% rate in the first year and 30% in later years. Any remaining balance from previous depreciation pools can be added to the new pool and depreciated at 30%.

CREDIT & DEBIT CARD DATA MATCHING

The ATO has obtained the 2011-2012 debit and credit card merchant sales data for Australian businesses from all major banks and credit card providers.

The aim of this ATO data matching program is to ensure that businesses are declaring all their income and to help the ATO increase their understanding of business behaviours and create compliance profiles. Any business which is identified as potentially not-reporting all their income should review their BAS and income tax lodgements and make a voluntary disclosure of any under-reported amounts.

DEPRECIATION SCHEDULE FOR RENTAL PROPERTIES

As the end of the financial year is just a few months away, now is the time to consider obtaining a depreciation report for any new rental properties acquired during the year.

A depreciation schedule provided by a quantity surveyor can significantly increase the eligible tax deductions for a rental property, particularly if the building was constructed in the last 40 years.

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NOT-FOR-PROFIT TAX CONCESSIONS

Part of the 2012 Federal Budget reforms to tax concessions provided to not-for profit (NFP) organisations are to be introduced such that tax concessions are only available for the specific NFP activities of an organisation rather than the organisation as a whole.

The commencement of this new regime has been delayed until 1 July 2014 to allow for further industry consultation. For organisations which operated business activities prior to 10 May 2011 which will be impacted by this change, all tax concessions will still be available until 1 July 2015.

If you currently operate a NFP organisation which receives any tax concessions, please talk with your DFK ANZ contact to discuss the impact of these changes.

AUSTRALIAN CHARITIES & NOT-FOR-PROFIT COMMISSION COMMENCES

On 3 December the ACNC commenced which marks a significant change to regulation of all not-for-profits (NFP) in Australia. The ACNC now determines if a NFP organisation is a charity rather than the ATO. The ATO will subsequently determine any tax concessions.

If involved in the control of a NFP, here are some steps to follow:

- Check the ACNC register to ensure the organisation is registered. If already registered with the ATO it will be transferred.
- Religious institutions who previously self-assessed as income tax exempt are required to register with the ACNC by 2 June.
- Automatically registered charities that have the purpose of advancing religion must notify the ACNC of their sub-group by 2 Dec 2013 in order to continue to receive additional benefits.
- If the NFP has a reporting period other than the financial year (ending 30 June) you must notify the ACNC by 2 June 2013.
- All ACNC registered charities are required to lodge an annual information statement within 6 months of their reporting period.
- Medium and large charities are required to prepare an annual financial statement.
- All charities are to comply with governance standards.

For information about the ACNC and what it means for your NFP charity please go to www.acnc.gov.au or talk to your contact.

OWNERSHIP OF ASSETS IN SELF-MANAGED SUPERANNUATION FUNDS

If you are a trustee of a Self-Managed Superannuation Fund (SMSF) you are required by law to keep any cash or other assets held in the fund separate from any assets held by you personally or any other business associates including companies, trusts or partnerships.

Assets which are held by the fund must be clearly documented and protected for SMSF use only. The SMSF must maintain its own bank account and all assets must be held in the name of the trustees usually with the following title ‘the individuals/company as trustees for the SMSF’. In some situations it not possible for the trustees to show the ownership of an asset as belonging to the fund eg. land titles and in that situation a caveat or other such document should be executed to show the asset is held in trust for the SMSF.

Every SMSF is required to be audited annually and so is required to ensure all ownership of assets in the SMSF are correctly documented.

GIC & SIC RATES

The ATO published general interest charge (GIC) and shortfall interest charge (SIC) rates for the third quarter of the 12-13 income year.

The GIC annual rate for January – March 2013 is 10.24%, and the SIC rate is 6.24%.

FEATURE STEPS FOR PROPERTY INVESTMENT

Property has been a popular path to wealth for Australians for many years. It has the potential to generate capital growth (an increase in the value of your asset) as well as rental income. There are also tax advantages associated with negative gearing. However, when buying an investment property,it is wise to remember you are making a business decision and it’s worth taking time to plan.

DO YOUR HOMEWORK

You are not buying from the heart but from the head, so it’s important to assess your financial position. What are your cash reserves and what equity do you have in your present home? Look at long term objectives and factor in potential changes to your current situation (e.g. the birth of a child or loss of one income).

UNDERSTAND NEGATIVE V POSITIVE GEARING

Positively geared properties – rental income is higher than loan repayments and outgoings. Tax is likely to be payable on net income. Negatively geared properties – income is less than your loan repayments and outgoings. The loss can be offset against other income earned, reducing your assessable income and tax payable.

DECIDE HOW TO FUND IT

You’ll probably need an investment loan. The deposit can come from your savings or alternatively from equity in the home you live in. It is also becoming popular to invest in property via a self managed superannuation fund.

CHOOSE THE RIGHT LOAN

Interest only loans are the most popular for investors because your borrowing costs are completely tax deductible. There are many other options however so talk to us about your requirements and we will make some recommendations.

FIND OUT HOW MUCH YOU CAN BORROW

This is an essential step to be realistic in your expectations and focus your house hunting on properties you can afford.

CALCULATE YOUR UP-FRONT COSTS

Remember to factor in stamp duty, loan application fees and legal costs into your plans. A building and pest inspection are also a must to avoid expensive headaches down the track.

ESTIMATE ONGOING COSTS

All properties incur ongoing expenses (e.g rates, insurance etc). You’ll use your rental income to cover most or all of these but you might need to have some spare cash set aside until you start receiving rent (most agents pay the owner at the end of each month so you won’t receive rental income straight away).

FINDING THE RIGHT PROPERTY

This is obviously the area in which you will spend the most time. It doesn’t have to be a home you would live in. Think about which features are universally appealing and of course remember the old adage – location, location, location!

FIND A GOOD PROPERTY MANAGER

Personal recommendations from tenants and landlords.

COVER YOURSELF WITH SUITABLE INSURANCE

Some insurance companies now combine building cover with specialist landlord insurance. Consider life and income protection insurance to ensure your family doesn’t suffer any hardship repaying loans if an income earner is unable to work.

FINANCIAL MARKET UPDATE

The S&P200 Accumulation Index finished trading up 4.95% in January. The market rallied strongly in the calendar year. The Australian market posted its best calendar year performance since 2009 finishing up 20.26%. In early January 2013 global equity markets including Australia rallied strongly post the US Fiscal Cliff resolution, and more positive Chinese Data.

In this update we look at the potential for a sustained period of low interest rates. We also explore the risk in simply picking the highest yielding stocks.

For the past 3 years Australia has had the highest interest rates of the developed nations. This was primarily due to record commodity prices and record levels of capital expenditure in the mining sector. With commodity prices moderating, capital expenditure is forecast to peak in the next 12 months.

Below is some interesting research from Goldman Sachs JB Were;

- The RBA has cut rates from 4.75% a year ago to now 3.00%. When we talk to people outside of the finance industry most think that rates will not stay here long.
- Most expect rates to go back up next year but as many of you know there is an income shock coming to Australia. The RBA is positioning for this and they will take rates down to 2.50% sometime in the next 12 months.
- Now rates are going lower, not higher, we are going to see 50 year low rates. What no one has lived through is a 'sustained period of low rates'. One where yield will dominate.
- Those companies with high dividend yields will see their share prices continue to work higher as investors chase higher yields relative to what banks will be offering.

We are seeing client's rolling over term deposits from 6% when they locked in a while ago with some now being offered 3.9%. As term deposit rates continue to decrease, some of the $300 billion that went into bank deposits in the last three years will move back into high yield Australian shares.

Lastly a question that we get asked frequently is why you don't just pick the stocks with the highest dividend yield. The simple answer is that often the companies that pay a very high dividend one year will often decrease their dividend the next.

We target high quality companies that have a growing sustainable dividend yields. The analysis of dividends forms part of our detailed research process. The criteria we use for determining whether a company's dividend is sustainable include the following;

- A well managed company growing its earnings and profits.
- Company should have a five-year dividend track record and ideally the dividend payment has never have been reduced during that period.
- Average dividend pay-out ratio (dividends/profits) to be no higher than 80% over a three-year period (no more than 60% for a capital-intensive business). A constant high dividend pay-out ratio increases the risk of a capital raising, which will either cause you a cash outflow or dilution.
- Special dividends paid solely out of the proceeds of an asset sale should be excluded from the calculation.

To maximise current market opportunities, we continue to invest in quality companies that have sustainable growing dividend yields.

DFK MEMBER **NEWS**

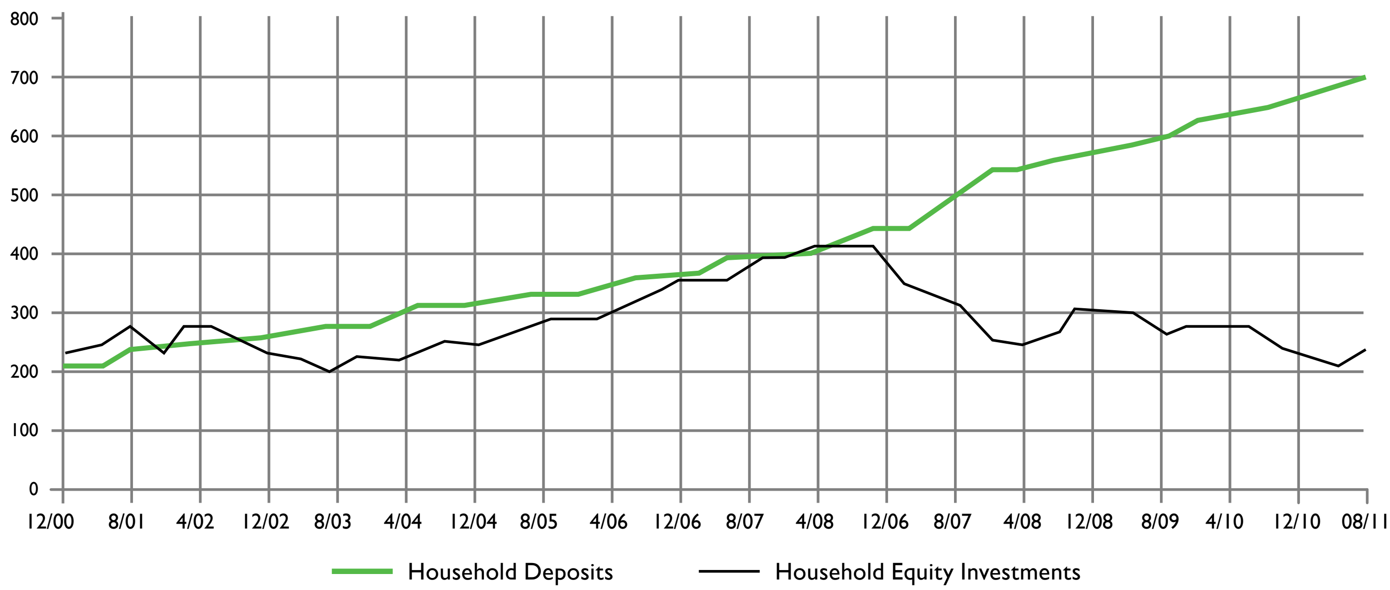
2013 STARTUP SMART AWARDS
– WHO WILL BE THE NEXT BUSINESS SUPERSTAR?

Australia's growing legion of wannabe entrepreneurs are set to get the ideal inspiration to take the plunge with a showcase of the nation's best start-ups at the 2013 StartupSmart Awards, sponsored by DFK Australia New Zealand.

The annual awards, organised by StartupSmart, Australia's leading news and advice website for start-ups, identify the brightest, most innovative young businesses in Australia. DFKANZ Chairman Chris Coulton is proud to be one of the judges and will present one of the awards at the Awards night in Melbourne.

Please visit our website for details.

CHART 1 – HOUSEHOLD DEPOSITS VERSUS EQUITY INVESTMENTS. IF RATES STAY LOW THIS GAP WILL REVERSE



FOR MORE INFORMATION & FUTURE NEWSLETTERS

For more information on anything contained in this bulletin please telephone or email us.

BUSINESS & TAXATION BULLETIN

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UPCOMING KEY DATES & DEADLINES

31 MARCH 2013	2012 income tax returns due for large individuals and trusts
31 MARCH 2013	2012 Income tax returns due for lodgement and payment for companies and super funds with total income in excess of $2million and have not been required to lodge earlier
21 APRIL 2013	Quarterly PAYG Instalment Notices due for lodgement and payment for head companies of a Consolidated Group
28 APRIL 2013	January – March 2013 Business Activity Statement due for paper lodgement and payment
28 APRIL 2013	Superannuation Guarantee Contributions due for payment for January – March 2013 quarter
15 MAY 2013	2012 Income Tax Returns due for lodgement for all taxpayers not required to lodge earlier
21 MAY 2013	April Monthly Activity Statement due for lodgement and payment
26 MAY 2013	January – March 2013 Business Activity Statement due for electronic lodgement and payment
28 MAY 2013	2013 Fringe Benefits Tax Returns due for lodgement and payment
5 JUNE 2013	2012 Income Tax Returns due for entities in a refund position per last year's return and current year
21 JUNE 2013	May Monthly Activity Statement due for lodgement and payment

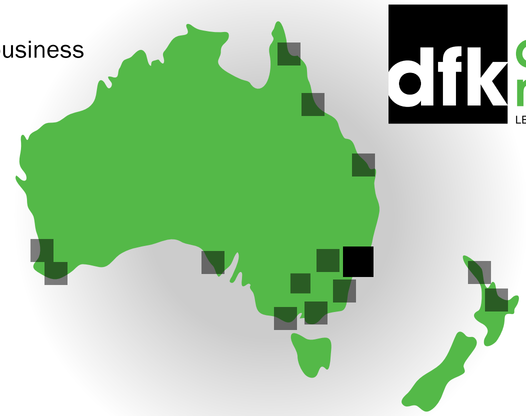
FOR MORE INFORMATION & FUTURE NEWSLETTERS

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

DFK AUSTRALIA NEW ZEALAND

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.

General Enquiries exec@dfkanz.com



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