

ACCOUNTING and BOOKKEEPING

2011 Seminars

Superannuation and SMSFs: Using Super to Save Tax

Wed 23rd March

20 to 1: Tips to Improve Your Business

Wed 11th May

How to be Found 1st Online

Wed 22nd June

Estate Planning: Legal and Accounting Advice

Wed 3rd August

Succession Planning

Wed 21st September

Conducting Business Online: Strategies and Pitfalls

Wed 2nd November

8:00am - 9:00am Light breakfast will be served from 7.45am

Venue: Our offices

To reserve your place please email:
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Finally it appears that the accounting software providers are starting to provide their small business software over the internet so that accountants and clients can work collaboratively using the same data. We believe that the software is not exactly what is needed but it is getting close.

The days of clients giving us MYOB on a USB stick are nearly over. We sometimes receive data where the version that is provided is a number of versions old and then we are expected to provide journal entries to get the clients system in sync with our final accounts. We are happy to accommodate these clients but you have to understand that this

Increases the cost to you. Some clients have expressed concern that their data is in the "cloud". However this can be overcome by backing up your data yourself.

This collaborative "cloud" accounting allows us to monitor your record keeping, update your chart of accounts and correct any errors or queries that you may have. It also enables us to give you advice using up to date figures.

It ensures that you are operating on the latest software and with the latest tax schedules. If you are like most small computer users that do not back up their systems daily, it also does the backs ups.

TAXATION

We would like to remind clients about one of the useful deductions for income tax— depreciation. Australia has an income tax or to put it another way, a tax on income. The alternative to income is capital or private receipts. The purchase of buildings, equipment, furniture and motor vehicles are generally capital and thus cannot be directly deducted from income. As these capital items lose their value over time the legislation allows you to write off the cost against income, over that time. This is what was called depreciation. The legislation now uses the term "capital allowance".

There are a number of fundamental definitions of "capital allowance".

The asset has to be used in earning income and thus can't be for private or domestic use.

The deduction is only available to the holder or owner of the asset. Thus if you lease a car, you do not own it and only the finance company can claim the depreciation.

Depreciable assets include intellectual property and also software. You depreciate the "cost". If you build a machine then the cost includes the materials and labour used in building it.

However if you are an individual and build some furniture for your rental unit then your labour is not included as it did not "cost" you anything. Cost also includes installation costs like the electrician connecting the printing press, and also includes dismantling, transportation and re-erecting costs if you are moving the equipment.

TAXATION cont.

You write off the asset over its useful life. However to make life easier for taxpayers the Taxation office has issued a comprehensive list of useful lives (140 pages of the Master Tax Guide) However some rates cannot be changed eg the rate for motor vehicles is 8 years. The useful life of plant for the manufacture of wooden clothes pegs is 13.5 years.

You have a choice of using either the prime cost or the diminishing value method. Once you have chosen a method you have to keep using it for the remainder of the life of the asset. The rate for diminishing value is 50% greater than prime cost eg for the car it is 12.5% and 18.75%.

Over the term of ownership of the car both methods come out the same. However diminishing value gives you the deductions earlier.

For a car there is a cost limit of \$57,466 for the 2010/11 year for which you can calculate depreciation.

Cost is the cost after deducting GST if you are able to claim the GST back.

When you sell the asset there is a balancing adjustment. That is you either add the profit to income or claim the loss. However you can offset the balancing adjustment against the cost of a replacement if the asset is lost or destroyed.

If you are a small business then you can run a pool of assets and also claim an immediate deduction if the cost is less than \$1,000.

If you are not in business eg you own a rental property then you can claim an immediate deduction if the cost is less than \$300.

Again with technology we use software to calculate the depreciation every year. Each asset is automatically rolled over and the cost, date of purchase and opening written down value for both accounting and tax recorded. The calculation takes a second to make even for the biggest schedule and can automatically be printed. In the old days some tax assessors were too lazy to check taxpayers' depreciation calculations and when the Tax Office moved out of its Martin Place office they had to clean out the lift well as this was where these assessors "filed" your depreciation schedules.

This is only a brief description and there are many exceptions and special rules. Please contact any of our accountants if you have a question as this part of our standard tax knowledge.

SUPERANNUATION

There are two major potential problems that we would like to highlight to clients.

Contributions Cap

For the year ended 30th June 2011 there is a cap on the amount that can be claimed as a tax deduction for contributions to a superannuation fund.

If you are under 50 at the 30th June 2011 then the cap is \$25,000. If you are over 50 then the cap is \$50,000. These deductible contributions are called concessional contributions and they apply to both employer contributions and personal contributions.

There are further rules that limit the deductibility of personal contributions commonly called the 10% rule.

If this cap is exceeded then a severe extra penalty tax is levied.

It would not appear difficult to get the calculation correct but in practice here are some of the things that have been reported as going wrong:

your employer pays the June contribution in July; the super fund allocates the contribution received before 30 June only after 1st July; you have two employers contributing and you get an extra payment from the second; you start the year with one employer and reach the cap but then move to a second employer who is then required to contribute 9% of salary, you salary sacrifice and you miscalculate the payments or do not switch back to salary soon enough.

Pension Payments

If you have started a pension there is a minimum pension payment that needs to be made every year based on your age. This pension can consist of only one payment but must be made before the 30th June. If you have started a transition to retirement pension then the maximum payment is 10% of your balance. These pensions only apply between the ages of 55 and 65. If you do not make the correct payment then this is a breach and the income earned by the assets backing this pension may no longer be exempt from tax.

If you would like further advice or for us to check your calculations, then please do not hesitate to contact us.

*Peter Vickers and Associates Pty Ltd Chartered Accountants: Principal—Peter Vickers FCA
Liability limited by a scheme under the Professional Standards Legislation*

INVESTMENT ADVICE

It is now over 8 months since the end of the last financial year and we have prepared the accounts for many self managed superannuation funds.

Most funds are now seeing a substantial increase in the market value of their share portfolios. This compares with substantial decreases in value for the previous year.

What is also of interest is that those funds that entered the market in 2007 are still showing capital losses compared to cost.

Entry into the market when markets are high will affect your portfolio value.

The same applies to exiting the market. What this emphasizes is that investing is a long term activity as over the long term errors in entry or exit are diminished.

We recently assisted a client to put his portfolio onto the CHES registration of his broker. They had only 9 shares with some on another broker's CHES and the rest on subscriber registration.

The process required manual lodgement of forms and took about 6 months due to bureaucracy. This contrasts to another client where we arranged the electronic sale of shares for the same value which only took 5 minutes and this was then followed by the purchase of a similar value of replacement shares for another 5 minutes.

This highlights the benefits of technology and also is a reminder that if you are forced to use human intervention, it takes excessive time and thus has a very high cost.

FINANCE

Peter Vickers Insurance Brokers Pty Ltd trading as Peter Vickers Finance Brokers has now received its Australian Credit Providers Licence.

We can give advice and assist clients to obtain any sort of finance, that is mortgage loans for both home and investment properties, leasing, hire purchase or chattel mortgage for equipment of cars, receivables or factoring.

A client purchased a new car in February and we gave them advice to buy the car in their operating trust as they would then get a refund of the GST and because their GST registration was cash we advised them to use a chattel mortgage as that way

they could get the GST refunded in their next BAS. We then set the borrowed amount at \$60,000 plus \$435 in fees as the finance company had a special discount of 0.15% if the amount lent was above \$60,000.

We then prepared all the documentation including a statement of assets and liabilities which only we could properly prepare due to the complexity of the client's structures, finance arrangements and the valuation of various businesses and investments.

We then had to instruct the car dealer how to write up their tax invoice and who to make this out to.

Due to again, the wonders of technology, the document preparation was a click of the button and was all done by us using the finance company's online system. What is left now is to calculate the private proportion plus GST for the owners to reimburse their trust in order to avoid FBT and to calculate the GST and balancing charge on their old car that they intend to sell privately.

If you need to raise finance for any purpose, ring Joe Staub on **9416 9266**. He will not only advise you on the best interest rates but on how best to structure the finance and the associated tax implications.

Please speak to Joe Staub about your finance needs.

Australian Credit Licence No: 229302

Receive our newsletter by email

If you would prefer to receive our newsletter (and other periodic information—you will not be inundated) by email, please let us know by emailing kathryn@pva.com.au. For those of you who prefer to receive a printed version, we will happily continue to send it by mail.

Flood Insurance—Would you be covered?

During the recent flooding of many areas of Queensland which declared three quarters of the state a disaster zone, the question for many was:

“Will my insurance cover this?”

Insurance Industry estimates suggest more than 60% of houses and businesses damaged in the floods last week had no insurance or flood cover leaving many facing financial ruin.

Flood insurance isn't simple, and many property owners don't realise where there may be gaps in many insurance policies until it's too late.

In the past few years some companies have included flood cover in their policies in various ways –so today a residential street can have people who do have flood insurance while their neighbours don't.

Following recent catastrophes insurers have decided a flood was really storm damage and have paid out accordingly. But in cases where the decision isn't favourable to the property owner, the Insurance Industry's reputation often takes a battering.



The recent floods have led to more than 40 areas across NSW and Queensland being declared

natural disaster zones. How those affected will be treated by their insurers will depend on who they are insured with. Clients are advised to look closely at their policies and ensure they have the right cover.

A Business insurance policy **without flood cover included** would read:

Cover is provided for:

Storm, tempest, rainwater, snow, sleet, wind, hail **but not:** By water from or action of the sea, tidal wave storm surge, high water **or flood.**

A Business Insurance policy that **provides flood cover** would read:

Cover is provided for:

Flood meaning the inundation of normally dry land by water escaping or released from the normal confines of any natural watercourse or lake (whether or not they have been altered or modified) or from any dam, reservoir or canal.

Assistant Treasurer Bill Shorten together with Insurance industry leaders will look at ways to make flood insurance more commonly available and the creation of a standard definition of flood, which had been attempted by the industry in 2008 trying to help consumers obtain a better understanding of what they are and are not covered against.

The Federal Government will continue to discuss various associated issues including flood mapping, reinsurance and reforms which could better prepare the country for future natural disasters.

In Australia flood mapping is typically the remit of your Local Council or a floodplain management authority. In determining if there is a flood risk to your property consumers should approach the Local Council or floodplain management authority and ask if your property is known to be affected by flooding.

There is far greater flood coverage in states like NSW, WA and SA because flood mapping and data has been made available to the insurance industry in those states.

The Australian general insurance industry can feel proud of its performance following major catastrophes like Queensland floods, Cyclone Yasi & Larry and the Victorian bushfires. It's often a quiet achiever after these devastating events, usually not seeking or receiving much credit for their employees' swift and compassionate response to those affected and their needs.

Flood cover will now be a political and regulatory issue rather than only an insurance industry problem. Hopefully it will bring a better understanding of the realities and a desire to finally fix the problem with a solution that's acceptable to all.

We ask you to look at your policy and be sure you are clear about whether you're insured for flood damage or not.

To discuss any aspect of your insurance, to have your current policies reviewed by one of our team to ensure that you have comprehensive cover at the right price, or to request an obligation free quote,

call us on 1300 784 011 or visit www.pvib.com.au

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