

## Predictions and realities - the new financial year

It's a new financial year and with it comes a series of changes and challenges.

*2011 Paperwork* - Now is the time to chase up the relevant documentation to help speed up the preparation of your 2011 tax returns. This includes contacting your private health insurer to send you a summary of health expenses you claimed and the refunds they made, saving time in compiling the information. Make sure you have annual statements from the real estate agents looking after your rental property investments. Most importantly ensure that the loan statements are available showing the interest paid during the year.

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## *Predictions and realities for the new financial year*

It's a new financial year and with it comes a series of changes and challenges.

### ***What you need to know in 2011/2012***

The central message for the new financial year is **'cash is king'** and will remain so for some time to come.

While the economy is performing well, consumers are wary about parting with their cash. Part of the problem is that around 50% of Australia's growth is coming from 10% of the economy. For the rest of the economy, petrol prices are high, interest rates are likely to rise, and the **rate of debt default is at record highs**. Consumer sentiment shows that no one really feels as secure as the headline economic data indicates so discounting and long decision making processes are likely to continue.

For business, take the cash is king message to heart. Some very high profile and established businesses have dissolved recently so **stick to your trading terms and watch your debtors** or you may be caught out by someone else's problem.

## ***What changed on 1 July?***

### **Individuals**

- A Flood levy of **0.5%** now applies to individuals with taxable income between \$50,001 and \$100,000 in the 2011/2012 income year. The levy rises to **1%** once your taxable income is above \$100,000.  
*Editor – most people will be caught by this*
- The dependent spouse offset phases out for taxpayers with a dependent spouse born on or after 1 July 1971 (40 years of age or less).  
*Editor – this will not affect as many people*
- Minors will no longer be able to access the low income tax offset (LITO) to reduce tax payable on their unearned income, such as dividends, interest, rent, royalties and other income from property.  
*Editor – This will impact people with passive incomes in trusts previously minimising income by distribution to children under age 18*
- The education tax offset extends to include school uniforms.  
*Editor – Generally good but with limitation*
- The Low Income Tax Offset (LITO) delivered through regular payments of salary and wages will be increased from 50% to 70% of total entitlements. The remaining 30% is paid as a lump sum in the taxpayer's tax return.\*
- Taxpayers will no longer be able to claim deductions against government assistance payments such as Youth Allowance.\*

### **Business**

- Trust beneficiaries will be able to continue using the primary production income averaging rules and farm management deposit provisions even if the business is operated through a trust and makes a loss.
- The GDP adjustment factor for PAYG instalment taxpayers who use the GDP adjustment method will reduce from 8% (which is the rate that would apply under the current law) to 4% for the 2011/2012 income year.
- The single statutory rate of 20% applies to determine the taxable value of car fringe benefits under the statutory formula method.  
*Editor – This will save time & accounting fees*
- Changes to R&D tax concessions will see a 45% refundable tax credit to companies with an aggregated turnover of less than \$20 million and a 40% non-refundable offset to all others.\*
- Company loss recoupment rules will be amended to make it easier for companies to satisfy the continuity of ownership test in certain circumstances.\*  
*Editor – When implemented this change should benefit many with losses locked up in entities*
- Not for Profit (NFP) income tax concessions will only apply to profits generated by unrelated commercial activities that are directed back to a NFP entity to carry out its altruistic work.\*

## Superannuation

- The ability to claim a tax deduction for certain Total and Permanent Disability (TPD) insurance policies through your superannuation fund has been streamlined and can now be based on set percentages. This provides an alternative to engaging an actuary to determine the deductible portion of insurance premiums.  
*Editor – This will be helpful*
- Stricter compliance requirements apply to SMSF's holding investments in collectibles and personal use assets.
- Minimum payment amounts for account-based pensions reduced by 25% for the 2011/2012 financial year.\*
- Individuals who breach the concessional contributions cap by up to \$10,000 (for the first time) can request that these excess contributions be refunded to them to avoid payment of the excess contributions tax.\*

## Directors face greater scrutiny

Draft legislation released last month will see Director's become **personally liable** for the **superannuation guarantee (SG) payments of employees**. The change is part of a suite of reforms designed to target phoenix companies but the reforms, if enacted, will have a much broader impact.

A phoenix company is the deliberate liquidation of a company to avoid paying liabilities including employee entitlements. The business then 'rises' and continues operations through another corporate entity, controlled by the same person or group of individuals, often with a very similar name and free of the debts.

The legislation, if enacted, will also give the tax office the power to pursue directors where PAYG and SG remain unpaid and unreported for more than three months beyond the due date.

\* Change has been announced but has not become law.

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## 'As seen on TV'

**TV Appearance** - Property Tax Specialists' Shukri Barbara was recently interviewed on Business show 'Your Money Your Call' by host Chris Gray of Empire on Sky News on Friday 3<sup>rd</sup> June 2011. To see the interview [click here](#)

<http://www.youtube.com/playlist?list=PL38076F7578DB0014&hl=en&gl=US>

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## ***Avoid delays - Lodge early – Tax Refunds Sooner***

Most property investors are negatively geared. This means that where they have not requested a variation of their PAYG deduction from their employer, they get refunds on lodging their tax returns at the end of the financial year.

ATO is now processing lodgement of returns very fast, particularly where there is a refund and the refund is being deposited electronically into the taxpayer's bank account. Some refund assessments are issuing within 7 working days.

**Tax Tip** - To get refunds lodge your tax return soon. **Property Tax Specialists** can help facilitate the process and minimise time and cost with their checklists and templates. Contact Shukri on [Shukri@propertytaxspecialists.com.au](mailto:Shukri@propertytaxspecialists.com.au)

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***Where are You Now? Where would you like to be? Call if you want to chat ... We look forward to being of Service***

Please do not hesitate to contact us if you would like to review & discuss your current property & tax situation, your asset protection strategy, structuring your next investment property, planning to legally minimise your tax position or just to prepare your next tax return.

We look forward to being of service. We also look forward to your referrals.

To improve our service we welcome all constructive comments on this newsletter and other materials.

For help contact **Shukri Barbara** at Property Tax Specialists at [Shukri@propertytaxspecialists.com.au](mailto:Shukri@propertytaxspecialists.com.au)

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### **Checklists and Templates**

To make the compilation & reporting task for 2011 tax returns easier, clients of **Property Tax Specialists** received checklists and templates to facilitate the process ... **saving them time and money ... the 'write' way is having clear documentation.** ATO way means time/money wastage with audit investigation.

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### **Disclaimer**

The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained.

Acknowledgement - parts of this newsletter have been taken from KnowledgeShop Pty Ltd client newsletters. Barbara & co – Property Tax Specialists is a member of the Knowledge Shop and Hayes Knight Network

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Kind Regards  
Shukri Barbara

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