

# WINTER 2003

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## CHARITABLE FOUNDATIONS NOW MORE ACCESSIBLE

Philanthropic foundations have always been considered the province of the very wealthy, the very altruistic, or those who have no family to leave their assets to. They've also usually been considered complex and expensive to set up. This has changed markedly over the past 12 months.

Philanthropic giving in Australia in recent years has seen a significant growth trend, 11.2% in the most recent annual assessment, and many believe it is set to increase exponentially over the next 10 years.

It is also known that approximately two-thirds of charitable donations are not claimed as deductions. This is thought to be due to two main reasons; people forget to claim or lose their receipts, and, bequests provided from estates are not tax deductible.

The main reasons for the increase in charitable giving include:

- ◆ An increasing awareness of the need and the opportunity for effective philanthropy;
- ◆ New taxation provisions;
- ◆ New products and services which improve access to foundation structures; and,

- ◆ The greater level of wealth, combined with the commencement of an inter-generational transfer of assets.

The government has introduced a number of tax changes in recent years to encourage philanthropy. These include the ability to spread deductions for gifts (cash, shares or real estate) over periods of up to 5 years if that suits the tax-payers circumstances.

There are companies that can facilitate your wishes with private trusts and other gifting structures.

## DEBIT LOANS IN PRIVATE COMPANIES – BEWARE

Overdrawn loan accounts to shareholders and associates in private companies are considered deemed dividends unless the loans were in existence pre 4<sup>th</sup> December 1997 or a properly structured loan agreement is executed.

The pre 4<sup>th</sup> December 1997 loans are quarantined unless the loan is varied by extending the term of the loan or increasing the amount. Also, if a loan is forgiven it will be deemed a dividend irrespective of start date. The Australian Taxation Office take the view that there is an effective forgiveness if the lender (company) becomes statute barred from claiming on the loan. This would normally happen after 6 years.

It is therefore appropriate that pre 1997 loans be acknowledged to ensure they do not become statute barred.

## NO MORE COMPANY ANNUAL RETURNS?

Corporate law is being reformed to simplify document lodgments and compliance procedures for companies. Small businesses will particularly benefit as the burden of compliance and paperwork will become easier and the timeframe in which to notify ASIC of changes will increase.

A major change is in relation to company annual returns. The annual return lodgement procedure will be changed whereby an annual review procedure requiring less paperwork where details have not changed. The review will coincide with the company's date of incorporation / registration.

There is also a move to electronic notification procedures instead of hard copy lodgments.

The ASIC will email an extract of data base details to each company within 2 weeks of the anniversary date of incorporation. Any changes must be notified back to the ASIC within 28 days of the anniversary date (annual review date). If there are no changes to company details no action is required. An annual

review fee will be payable within 60 days after the company review date. The fee is fixed at \$200 per company until 30<sup>th</sup> June 2004.

Most companies will therefore, not need to send the ASIC an annual statement.

### ***Compliance Made Easier:***

Notification to the ASIC of changes to company details will be required within 28 days of a change. ASIC will issue an updated extract of particulars whenever a company notifies a change to enable a company to confirm that changes have been correctly recorded on the register. Late fees will apply.

## **YEAR END TAX PLANNING**

With the end of the tax year (30 June) rapidly approaching, now is the time to implement year-end tax saving strategies. Correct structuring of salaries, bonuses, superannuation, dividend levels, negative gearing, prepayments, etc can be of great benefit when carried out prior to 30<sup>th</sup> June.

1. Accelerate Deductions  
Due to prepayment rules, only small businesses (turnover under \$1million and depreciable assets under \$3 million) can

prepay business expenses and receive a full deduction this year. You can prepay expenses by ensuring that a cheque is drawn for the expense in June, rather than July or August. The tax laws only allow prepayment of expenses up to 13 months in advance. Even so, this is still an excellent way to legally delay payment of tax for a year, particularly for those businesses classified as "small business".

To improve the chances of deductibility, the prepayment should be a condition of the contract or arrangement that requires or allows that advance payment. Check the terms of the contract before any prepayment is made. Some examples of this are:

- Interest can be prepaid on a business or investment loan.
  - Prepay business rent of premises or certain lease rentals on business assets.
  - Repairs to vehicles and equipment can be carried out in June, rather than in July.
  - Business travel and conference costs.
  - Other general business expenses such as property maintenance, stationery and insurance.
2. Deferring Taxable Income  
Check the items of

income that are possible to delay into the next tax year.

Some Specific Points:

- Where income will be derived by a minor who is nearing the age of 18, income deferred into the following year will attract the much lower adult rates of tax.
- Where income in the next tax year is likely to be substantially less and the applicable tax rate much lower; e.g. in the case of a downturn in business, extended holidays, retirement, etc.
- The deferring income strategy can also be utilized for personal exertion income. Salary and wages and other payments for services rendered are generally taxed when they are received. This is so whether the payment is for current or past services. This means that back pay, retrospective increases, lump sum workers' compensation arrears, bonuses, directors fees, holiday pay and the like are all assessable in the year they are received. This can work to the advantage of the taxpayer, e.g. receive a bonus or

commission on 1 July rather than 30 June.

3. **Superannuation** – must be paid before 30 June to claim Tax Deduction. A business is able to pay its June Superannuation Guarantee contribution by 28 July quite legitimately but it won't be tax deductible in June. You also need to consider the superannuation surcharge. Super funds are currently taxed 15 percent on most superannuation contributions. However, if your adjusted taxable income (including superannuation contributions and fringe benefits) exceeds \$90,527, the superannuation surcharge may also apply. For each thousand dollars received over that amount, the surcharge rate on the super contribution climbs by one per cent up to a maximum of 15 percent.

4. **Farm Management Deposits** – The Farm Management Deposits scheme system should allow primary producers to plan their taxation affairs to perfection. That is reduce taxable income when in the top marginal tax bracket (above \$60,000) and defer the income to a year when taxable income falls into the lower marginal tax brackets. Interest on amounts borrowed to fund the tax deductible

deposits should also be tax deductible. Deposits are fully tax deductible in the year of deposit. The deposit must be made prior to 30 June to be effective in this tax year. Amounts are taxable in the year of withdrawal.

5. **Offset Capital Gains Against Capital Losses** – This is an area that has caught many investors out. Capital losses realized in a tax year can only be offset against capital gains, made in the same year or future years. Capital losses cannot be offset against ordinary income, although they can be carried forward to future years. Therefore you must ensure that capital losses are realized before or in the same year as the capital gain. If you have a realized capital gain in the current year, and are sitting on unrealised capital losses, you must give serious consideration to realizing the loss to offset the gain in the same year.

6. **Bad Debts** – Write off before 30<sup>th</sup> June to gain a tax deduction in the 2003 year.

7. **Stock on Hand** - Review stock levels, write down obsolete and damaged stock, and look at the most advantageous method of valuation i.e. cost or market selling value

## MOTOR VEHICLE EXPENSES

Rates per kilometer for the 2003 income year.

The prescribed rates for calculating a deduction for car expenses for the 2003 income year are as follows:

TYPE OF CAR	ENGINE CAPACITY (NON-ROTARY)	Rates per kilometre
Small	Not exceeding 1600cc	50 Cents
Medium	Exceeding 1600cc but not exceeding 2600cc	60 Cents
Large	Exceeding 2600cc	61 Cents

## Fringe Benefits

The cents per kilometre rates are also used to calculate the taxable value of some fringe benefits relating to motor vehicles (eg. Remote area holiday travel). The 2003 income year rates are to be used for fringe benefits provided in the fringe benefits tax year ending 31<sup>st</sup> March 2003

## FEDERAL BUDGET

The Treasurer delivered the 2003-04 Federal Budget in May. Included in the Budget were the following tax measures:

1. Personal income tax cuts (by increasing the personal income

- thresholds), from 1 July 2003;
2. An increase in the low income tax offset, also from 1 July 2003;
  3. An increase in the Medicare levy low income threshold, from 1 July 2002;
  4. Increases in the maximum income level thresholds for the Senior Australian tax offset, effective from 1 July 2003;
  5. Alienation of personal services income measures (to allow excess personal services income deductions to be used against other income and to prevent the double taxation of fringe benefits), effective from 1 July 2000;
  6. Imputation changes – allowing the carrying forward of surplus exempting credit balances.

- Increasing the upper limit for the 42% tax rate from \$60,000 to \$62,500.

Effective from 1 July 2003, the following personal tax rates (excluding the Medicare levy) will apply:

2003-04 threshold income range	2003-04 tax payable (residents)
\$0 - \$6,000	Nil
\$6,000 - \$21,000	Nil + 17% of excess over \$6,000
\$21,600 - \$52,000	\$2,652 + 30% of excess over \$21,600
\$52,001 - \$62,500	\$11,772 + 42% of excess over \$52,000
\$62,501 +	\$16,182 + 47% of excess over \$62,500

businesses that sell property'. Under these changes, businesses that elected to use the margin scheme, but did not use a valid valuation of the property, will be given the choice of:

1. Substituting another existing valuation, where one is available (for example, an existing ratings value of the property);
2. Obtaining a valid valuation (for example, by engaging the services of a professional valuer); or
3. Defaulting to calculating the margin as the difference between the selling price and the original purchase price.

Under this approach, no penalty will apply in cases of 'genuine misunderstandings or honest mistakes'.

*Disclaimer: The contents of this publication are general in nature and we accept no responsibility for persons acting on information contained herein without first consulting us.*

## Personal Income tax cuts

The Treasurer announced that, from 1 July 2003, personal income tax cuts will be achieved by increasing the personal income thresholds as follows:

- Increasing the upper income limit for the 17% tax rate from \$20,000 to \$21,600;
- Increasing the upper income limit for the 30% tax rate from \$50,000 to \$52,000; and

## GST REQUIREMENTS FOR BUSINESSES SELLING PROPERTY

The Australian Taxation Office 'will relax the GST requirements for

# SAVING ON ACCOUNTING COSTS!!

## -2003 BUSINESS TAX RETURN CHECKLIST

Every year we find that when clients forward their information to our office to prepare their financial statements and income tax returns, they fall short in providing all the necessary information required. We end up in a series of "to-ing and fro-ing" with the client to gather missing information, all of which adds to the costs.

To keep your accounting costs to a minimum we have detailed below important documents and information that should be provided to GDF Partners in order for us to complete your work.

Documents such as:

- If you have computerized accounting records please provide a new disk or provide printouts of financials and general ledger for period 1 July to 30 June.
- If you have manual accounting records please provide - Bank Statements for the period 1 July to 30 June. Including a bank reconciliation, if prepared at 30 June. As well as deposit books and cheque butts.
- Dividend statements received during the year. Alternatively, a summary of dividends received detailing franked, unfranked and imputation credit amounts.
- Copies of contract notes for listed or unlisted shares or units in unit trusts purchased or sold during the year.
- Any statements that detail the numbers of shares or units held by you at year end.
- Details of any dividends paid by your companies during the year
- Trust Distribution Annual Tax Statements
- Value of closing stock on hand at year end
- Trade creditor and trade debtor amounts at year end
- Details of sundry debtor or creditor amounts at the end of the financial year
- Supporting documentation of any bad debts written off during the year
- Details of any doubtful debts
- A copy of the Payment Summary Statement or individual Payment Summaries for employees reconciled to the salary and wage expense in the accounts
- A copy of Workcover Annual Reconciliation Certificate
- Copies of monthly (12) or quarterly (4) Business Activity Statements reconciled to the GST accounts.
- Any new hire purchase or lease agreements entered into during the year
- A detailed listing of any prepayments made during the year
- A copy of the Payroll Tax reconciliation for the year
- Details of any private portion of expenses (telephone, travel, motor vehicle expenses, light and power etc.)

- Copies of Log Books kept for motor vehicles
- Copies of travel diaries for interstate or international travel
- Long Service Leave and Annual Leave Provision records
- Copies of legal expense invoices paid during the year to determine their tax deductibility
- Details of Subscription and membership expenses paid during the year to determine their tax deductibility
- Details of any donations made during the year to determine their tax deductibility
- Details of insurance expenses paid during the year
- Details of any capital asset additions or disposals, especially Motor Vehicles
- Details of any significant repair and maintenance expenses paid during the year
- Details of any significant computer expenses paid during the year
- A breakdown of material general or sundry expenses incurred during the year
- Details of any business expenses paid personally by directors either by cash or credit card
- Details of any removal of addition of directors and any change of address of directors

The above listed is a general overview only and should you have any specific queries please contact our office.

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# 2003 INDIVIDUAL INCOME TAX RETURN CHECKLIST

YOUR NAME:

CONTACT PH. NO.(B): (H): (M):

HOME ADDRESS:

D.O.B:

OCCUPATION:

E-Mail Address:

\*If you tick yes to any question please either attach the required receipts or include a summary of the details.

## Your Income

1. Have you received all of your :

- **Unemployment** or **AUSTUDY** Statements?
- **Payment Summary/s?** (Formally known as Group Certificates)
- **Eligible Termination Payment Statements?**
- **Pension or annuity Statements?**, Specify what is the **undeducted purchase price** (if known)?

Y / N

2. If you **received interest** on any Bank Accounts/Other Investments please provide details of all accounts on which interest was received, the amount(s) received & if accounts are jointly or personally held.

Y / N

3. Did you receive any **distributions** from **Trusts or Partnerships?** *If so, please send in the appropriate information.*

Y / N

4. Do you have a **rental property?** If so, then we need details of rent received, interest paid and other deductions for each property.

Y / N

If the **property was bought** during the year we need the following information:-

- purchase contract
- contract date and settlement date
- list of chattels bought and cost of each (eg. stove, hot water service, carpets, curtains, blinds, oven heater, ducted heating, etc)
- details of borrowing costs and term of loan
- details of stamp duty and legal fees paid
- date the property was first constructed (year and month are enough)
- date the property was rented out if applicable

5. Do you **own any shares?** If yes, we need the **dividend statements** for the year.

If you have no dividend statements, we need **total dividends received** from each company for the year as follows:-

- Unfranked Dividends
- Franked Dividends
- Imputation Credits

Y / N

6. Did you **sell any assets** during the year that may give rise to Capital Gains Tax?  
Eg Shares or Rental property. Y / N

**If so we need the following information:-**

- asset description
- purchase and sale dates (contract dates preferable, but if not available an estimated date).
- cost price (including . purchase price, stamp duty, legal expenses, brokers fees etc.)
- sale price (including. sales commission, legal expenses, brokers commission etc.)  
(Attach details and documents)

If shares were sold, we need the sale documents, the original purchase documents and any dividend reinvestment documents. (These must show the purchase/sale prices and dates.)

7. Did you receive any **other income**? If so we need full details of the source and amount of income received. Y / N

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## ***Your Deductions***

### **Motor Vehicle:**

8. Are you required by your employer to **use your car for work**? Y / N

*If yes, please advise the following:*

- A. If you **travelled 5,000 business kilometres or less**, we need details of the **business kilometres travelled, your car type, engine size and registration.**  
OR
- B. If you **travel more than 5,000 business kilometres** for work **or** would like to use the log book method, then we need to know the **actual running costs** of the car such as :-

- Log Book Business %
- Vehicle make
- Registration
- Insurance
- RACV
- Petrol - If you do not have receipts, please provide an estimate (eg \$20 per week)
- Repairs & Maintenance
- Lease or Hire Purchase (HP) payments

9. Did you **buy or sell** a motor vehicle during this financial year, which was used for work.

*If so please provide the following details:* Y / N

**If a car was sold, we need:-**

- Date of sale
- Sale price
- Dealer sale document (incl. trade-in)
- Finance payout information (if any)

**If a car was bought, we need:-**

- Date of purchase
- Purchase price
- Dealer purchase document (incl. trade-in)
- Finance information (lease/HP, if any)

**Travel:**

**10.** Did you incur any **work related travel expenses**? *If so, we need a list of expenses incurred.*

Please note that a diary should be kept if away from home for 6 nights or more and receipts should be supplied where possible. Y / N

**Clothing:**

**11.** Did you incur any expenses in relation to **uniforms or protective clothing** including the **laundry / dry cleaning of these uniforms**? *If yes please provide a list of these expenses.*

Y / N

**Self Education:**

**12.** Did you complete any **courses** which were related to your work? If yes, we need to know what type of course and what expenses were incurred?

Y / N

**Home Office:**

**13.** Did you perform any **work at home**? If yes, could you please estimate how many hours a week you work at home and provide a list of expenses related to this eg stationary, books, furniture).

Y / N

**Other:**

**14.** Did you have any **other work related expenses**?

Y / N

Such as:

- Union dues
- Mobile Phone Bills
- Tools
- Sickness & Accident Insurance
- Depreciation (professional library, tools, equipment)
- Car parking
- Seminars & Conferences
- Stationery
- Briefcase or Calculator
- Subscriptions
- Sun protection
- Any other expenses

If so, we require details of these expenses in summary form, or the actual receipts.

### Superannuation:

15. Do you **personally contribute to a Superannuation Fund** (not including amounts contributed by your employer)? *If yes, specify details such as name of Superannuation Fund, policy number and amount.* Y / N

### Loans:

16. Did you take out any new loans / **borrow for business or investment purposes**? If yes, we need details of the purpose of the loan, the loan statement(s), the term of the loan, application costs and other expenses paid to the bank re the loan. Y / N

### Donations:

17. Did you make any **donations** of \$2.00 or more to a registered charities? *If yes, please provide a list of these donations.* Y / N

18. Did you incur **Tax Agent Fees** for preparing last years Tax Return? If yes, we need to know the amount and who it was paid to. Y / N

### ***Any other information***

19. Do you have a **H.E.C.S. or P.E.L.S debt or a supplement loan**?

*If yes, please provide us with a copy of the statement(s) or amount of debt outstanding.*

Y / N

20. Did you **cease full time education** during the year? *If so we need to know the net income earned while a full time student and the date of ceasing full time education.*

Y / N

21. Did you become a **resident of Australia** or **cease being a resident of Australia** during this financial year. *If so we need to know the date residency status changed and details of any income earned overseas.* Y / N

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## **Rebates**

### **22. Did you have a spouse (married/defacto) at 30th June 2002.**

*If yes, please include the following information.*

Y / N

Full name:

Date of birth:

Tax File Number:

Income received:

Wages, benefits from dss, interest etc

Expenses incurred:

Bank charges, child-care expense, travel expenses etc

(or spouse's taxable income if the above are not known)

### **23. Do you have any children?**

Y / N

If yes, please include details such as; full name, date of birth, number of nights under your care and any income received by these children.

### **24. Do you have any dependents other than your children eg Parents?**

Y / N

*If yes, please include details such as; full name, date of birth and relationship of dependent.*

### **25. Are you a sole parent?**

Y / N

### **26. Medical Expenses Rebate:**

If your family's out of pocket **Medical Expenses were over \$1,500** i.e. after Medicare and private health insurance reimbursements, you may be able to obtain a rebate. *If so please provide the following expense details:*

- Payments to doctors, hospitals, chemists, & payments for dental, optical or therapeutic treatment.

We also need copies of any **Medicare rebate statements** and any private insurance rebates received.

Y / N

### **27. Health Insurance:-**

Did you contribute to any **Private Health Insurance** during the year. If yes, you should receive a statement from your health fund in regards to the rebate you maybe entitled to. Please include this with your information.

Y / N

**28. Superannuation:-**

Did you make any contributions to your spouse’s superannuation fund? *If yes, please include details of the **amount of contributions** and the **taxable income of your spouse**.*

Y / N

**29. Baby Bonus:-**

Do you have a new baby (or child under 5)?  
If so please advise name, date of birth / date you became legally responsible,  
spouse’s name and date of birth

Y / N

***Could you please provide any additional information and sign & date the bottom of the page***

*Thank you for your time and effort in completing this Checklist*

\* \* \* \* \*

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The above list is provided as a guide only and is non-exhaustive. Should you have any other relevant information that could impact on your return please provide it here.

**Completed by** \_\_\_\_\_

**Signature** \_\_\_\_\_

**Date** \_\_\_\_\_