Hurst Andrews

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Summer Newsletter 2013

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How quickly has the year gone?

Once again it seems another year has flown past and we are almost ready to welcome in the holiday season, and the half-way mark of another tax year.

The favourite Fiorente's won the Melbourne Cup, the Hawks redeemed themselves in the AFL, the Sydney Roosters were premiers in the rugby league and the Aussies even started well in the home series of the 2013/14 Ashes tour.

On the financial front interest rates are still on hold with the official cash rate at 2.5 per cent. This is the fourth consecutive month the RBA has elected to keep the cash rate on hold, which is good news for home buyers. It will be quite interesting to see what impact the steady interest rates have on retail spending over the summer period, and whether more Australians put their savings towards reducing debt or add more capital to investments such as shares and property.

On the point of tax and time getting away, the time between Christmas and the 2014 return for June 30 will come and go just as quickly as the 2013 year seems to have flown past already. We urge you to think ahead, read the articles about asset structures and updates and consider if any of these may be appropriate to you. If there is anything in this newsletter you would like to know more about, or if as the year comes to an end you feel any stress in respect to your tax and accounting needs, hand it over to us and let us sort things out, so you can focus your time and efforts on what you know and do best.

We hope you find this newsletter valuable and more importantly we would like to wish you and all of your family best wishes for the holiday season and hope the New Year brings you continued happiness and success.

Market Update

The current cash rate of 2.5 per cent is at its lowest point in 50 years and it is expected the RBA will keep it on hold for several months until March of next year, despite the fact that RBA governor Glenn Stevens remarked in his press release that the Australian Dollar remains "uncomfortably high".

Governor Stevens warned that "a lower level of the exchange rate is likely to be needed to achieve balanced growth in the economy" as the high exchange rate is currently having a negative effect on commodities markets as well as our export and tourism markets. Strategists expect the currency will remain high against the US Dollar until the United States Federal Reserve ends its current economic program at the end of the first quarter next year.

The strategy of the Reserve Bank is that by making cuts to the cash rate the hope is that the Australian Dollar will go lower however at this point in time in the face of the US Government's current economic policy it is relatively futile. However it would appear that further cuts to the official cash rate may be on the cards at some point if the Australian Dollar does not decrease in value by itself. Market analysts have indicated that a more positive economic outlook would be achieved with the Australian Dollar around US79c rather than its current high levels of over US90c.

Analysts agree that the upward movement and return to confidence in the Australian housing market look set to continue and current low interest rates should have a positive effect on new housing construction levels and investment over the next few months. Indications are that low interest rates look set to continue into the first quarter of next year and beyond. Additionally, the four big banks report that they expect more home loan and business borrowers will emerge to drive up demand for credit, with demand for credit increasing by 3.3 per cent in the year to date according to official RBA statistics.

Current loan rates are very low and there are some very competitive prices available as the lenders are gearing up to battle it out for your business in the coming year. If you're looking to borrow to invest in property or growing your business, now would be an excellent time to consider making a move as positive market trends look set to continue.

From a clients perspective lower rates should mean lower repayments on mortgages, credit cards, vehicle and equipment finance and investment loans, however, not all banks or existing loans pass on the savings to existing clients and focus on new finance facilities to offer lower rates.

To find out if lower rates is an opportunity for you and your business, give us a call today.

Capital Gains Tax on Property

Capital gains tax is a tax that is important to understand when clients are out shopping for property, particularly investment property. And like most taxes, it's a term that most of us just don't want to know about! But if you're buying or selling a property you'll want to know exactly what it is and how it may impact you.

Capital gains tax (CGT) is a tax paid on any profit you make from the sale of most assets, not just property assets. Put simply, a capital gain is the difference between what you paid for an asset and what you receive when you sell it. If you are a property owner, capital gains tax may become an issue when you make a profit from selling your property, but there are a couple of standard exemptions you should know about.

CGT exemptions for your family home

A full exemption from CGT applies if you are selling your family home or principal place of residence. The Australian Tax Office (ATO) considers a property your principal place of residence if you and your family live in the dwelling, your mail is delivered there, you keep your personal belongings there, you're registered to vote at that property's address and you have phone, gas and electricity supplied to the property in your family name.

You can only claim one principal place of residence at any given time, so if you have investment properties it should be noted that you can only claim a CGT exemption on the house in which you live. If you're selling your principal place of residence and buying another one, you're entitled to an overlap period of up to six months as long as the new property you are purchasing will be your principal place of residence once the move is completed and you lived in the old property for at least three continuous months in the 12 months before you sold it and did not rent it out to tenants.

If you rent out your family home, CGT will apply to the proportion of time it was rented out. For example, if you owned the property for eight years, but only lived in it for six years and rented it out for two years, you would be liable to pay CGT on the two years it was rented out, so you would have to pay CGT on 25% of the profit you made from the sale.

Even if you do rent out your principal place of residence, you may be able to avoid paying CGT under the "Temporary Absence Rule" as long as you don't claim your new house as your principal place of residence when you move. Using this rule, your old home will be treated as your principal place of residence for up to six years and you can be exempt from paying CGT on the property when you sell.

CGT and investment properties

Calculating the CGT payable on your investment properties can be quite tricky and you should always seek professional advice. As a guideline, if you own your investment property for longer than 12 months you are generally entitled to a 50% discount on the CGT payable when you sell. In general, the CGT calculation is made on the sale price of the property minus your non-deductible expenses which forms part of your cost base, so it is vitally important that you keep good records regarding your cost base expenses for each of your investment properties.

Cost base expenses for investment properties can include:

- Incidental costs including stamp duty, legal fees, agent's fees, advertising and marketing costs.
- Ownership costs like home maintenance, rates, title costs and interest on your home loan.
- Improvement costs such as renovations to the kitchen or bathroom or addition of a swimming pool and so on.

Once you have used these factors to work out the capital gain on your investment property, the figure is adjusted according to the period of time you owned the property and the period of time the property was rented out and not used as your principal place of residence.

Remember, this is general information and does not take your personal circumstances into consideration, and you should always seek professional advice from us or a financial adviser regarding CGT when you sell your property. You must also keep in mind that different rules apply to Australian citizens and foreign residents, and CGT may apply to other assets besides property.

Protect Your Assets from a Taxing Blow

Whilst the ATO has announced recent Federal funding to audit taxpayers who have been involved in tax evasion or avoidance using trusts, appropriately use of trusts can be an effective way of protecting your assets.

Knowing how to structure your business so you get the best out of it for you and your family is vital.

Without sufficient protection, if you are a sole trader, all your assets are up for grabs. One option for a sole trader to protect his or her assets is to put them in the name of their spouse, however this is not always without its own complications. The advantages, or otherwise, of setting up a trust will depend on an individual's circumstances.

Traditionally a lot of family businesses have been run through trusts, where advantages include providing flexibility as to where income is distributed, and in circumstances where a family member dies, the trust continues and ownership of the assets of the trust are not affected. Income distribution flexibility can be particularly useful where income levels can vary for each member due to personal circumstances such as a loss of job. However, the tax advantage of distributing to children under the age of 18 years has long gone, as punitive rates of tax apply, effectively removing any tax advantage.

Whilst the popularity of trusts is undisputed, it is not simply a matter of one-size fits all. There are various pros and cons, so businesses need to approach trusts with both eyes open. It is important to note that once an income distribution has been made to a trust beneficiary, the beneficiary is entitled to receive that income. Costs for the establishment, and ongoing management and compliance also need to be taken into consideration.

If you are time poor, and juggling the ongoing demands of your business, talk of trusts, income distribution and tax obligations may leave your head spinning. However, where your business income is more than $80,000 it could well be worthwhile setting up a trust. Make the time to talk to us as your professional tax adviser about setting up a trust, including discussing compliance, costs, asset protection, the ability to distribute income to family members, access to capital gains and succession planning.

Small Business and Government Tax Incentives

Australia prides itself as a nation that wants its' residents to succeed, grow, and thrive. With an economy that is home to over 1.2 million small businesses, it is no surprise that Australia is considered one of the easiest places to start a company in the world.

The country not only has a multitude of business-friendly incentives that encourage growth, its citizens also enjoy the benefits of being taxed fairly. If you are in the process of expansion or thinking about starting a business in Australia, here are some things that you need to know.

Business Expenses and Tax Deductions

For starters, did you know that nearly all purchases you make towards your business are tax deductible as a business expense? As long as it is itemised and you can prove that it is used for your business, it is an allowable deduction. Still, make sure that you consult us, your qualified tax accountants, when it comes to the fine print as there may be tax deductions that are allowable for specific professions, but not allowable for all.

Another tax incentive worthy of note is the R&D Tax Concession program. Companies may qualify for a maximum tax offset of 45% for the expenses that occur within Australia. Because the tax offset may be refundable, this has made the country a very attractive business location for corporations like pharmaceuticals, chemicals and automakers.

This is just the tip of the iceberg when it comes to the many tax incentives that the Australian government gives to business owners—big and small. If you want to know the ins and outs of tax incentives applicable to your business, give us a call today.

Small Business Grants

The Australian government provides free financial assistance to entrepreneurs every year in a form of small business grants. There is a certain amount of money which is provided as a free loan for business funding that does not need to be returned to the government, however, they are not provided to just about any person who has a small scale business. This free financial assistance is only provided to those who qualify for it, according to the government's terms and conditions.

What can these loans be used for?

These small business grants can be utilized for different purposes, out of which the main purpose of acquiring free loan is to establish a new business for strengthening the country's economy.

Entrepreneurs can use the free business loan for:

- Establishing business site including construction and reformation;
- Purchasing office supplies and raw materials; or
- Purchasing or hiring machinery equipment for production (including storage space for products).

What is the motive of providing free small business grants?

Grants are provided by the government to its citizens to help them establish their new businesses or even to support existing businesses from a financial point of view. Consequently, more jobs will be available for unemployed citizens and more taxes will be paid, which will eventually help boost the country's economy. These grants are provided as a free financial help and are not to be returned to the government.

Are you looking for business funding programs to submit your free loan application?

There are many business funding programs held every year, which are organized by the government of Australia. You cannot consult them directly to submit your loan application. First, you need to find the most appropriate business funding program according to your business plan and then only you are able to submit your loan request. Finding such programs can consume a lot of time, regardless of any fixed duration, it may take months and even years if you do not seek professional help in finding such business programs.

Organisations such as governmentgrantsaustralia.org can assist you by finding the most appropriate business funding programs in Australia, and matching them to the most appropriate program according to your business plan.

For more information on small business grants in Australia, you can visit governmentgrantsaustralia.org/small-business-grants.

Back to the Mines – A Taxing Change

DITCHING small business tax concessions when the economy is transitioning from mining to the broader industrial sector is wrong, the federal government Senate hearing has been told.

The coalition is repealing the former Labor government's controversial minerals resource rent tax (MRRT) and a number of measures it was supposed to fund. These include the loss carry-back initiative, which allows business to offset losses to get a refund on previous tax paid, and returning the instant asset write-off for small business to $1000 from $6500.

The Australian Industry Group (Ai Group) wants both measures retained because they encourage small business investment and their cost to the budget is relatively "tiny" at $3.8 billion over four years. "We need this investment now because mining investment is coming off, there is no adequate (alternate) investment across the board," Ai Group director of public policy Peter Burn told a Senate hearing into the MRRT repeal legislation.

ACTU assistant secretary Tim Lyons, who helped develop the loss carry-back scheme as part of Labor's business tax working group, said repealing it risked more businesses failing than there needed to be, and it would have consequences for employment. Australian Chamber of Commerce and Industry chief executive Peter Anderson agreed, saying the instant asset write-off helped stimulate business at a time of slower economic growth.

Superannuation groups welcomed the government's commitment to increasing the compulsory super guarantee to 12 per cent - of which associated tax concessions are supposed to be MRRT funded - even though it is delaying incremental increases for two years. However, they believe the Low Income Superannuation Contribution should be retained as it allows those earning under $37,000 to pay no tax on their super contribution. Otherwise they would be the only workers who receive no tax benefit on super. "It will positively impact future government outlays in respect of the aged pension," Industry Super Australia deputy chief executive Robbie Campo said.

Unsurprisingly, mining groups will be glad to see the back of the 30 per cent MRRT on the super profits of coal and mining companies from July 1 next year, assuming it gets Senate approval. Association of Mining Exploration Companies chief executive Simon Bennison said it would be a significant step towards restoring confidence in the sector, adding that Australia's reputation as a safe place to invest had been "tarnished". Minerals Council of Australia Deputy chief executive John Kunkel said the MRRT was not necessary to share benefits of the mining boom when the industry already paid a fair share of federal and state taxes.