

Cliftons Accountants

THE Business Specialists - Accountants & Business Advisors

June 2006

PERSONAL

30% CHILD CARE TAX REBATE

2006 Income Tax Year is the first year that claims can be made for the new Child Care Rebate.

To be eligible to claim this new rebate you need to meet the following three criteria:

1. Receive Child Care Benefit (CCB)
2. Meet the CCB work/training/study test, or otherwise be eligible for up to 50hrs of CCB per week, and
3. use approved child care services.

You claim for Out-Of-Pocket expenses paid in the period 1 July, 2004 to 30 June, 2005 in 2006 Income Tax Return. So make sure you have all your records, or request them from your child care provider.

You can claim the rebate at 30% of your out-of-pocket expenses, up to a maximum of \$4000 per child per year. This is a Non-Refundable Rebate (an extra over your normal tax payable is not paid to you), however any excess rebate can be transferred to your spouse.

The primary claimant is the person who is registered with the Family Assistance Office and receives the CCB. Foster parents are also eligible to claim rebate, as long as they also meet the above criteria.

Note that fees charged for extra costs (e.g. excursions) are not claimable and do not form part of your out-of-pocket expenses.

If you have your child care fees paid as a Salary Sacrifice arrangement, then you cannot claim the rebate.

BUDGET HIGHLIGHTS 2006/2007

Personal income tax rates have changed as a result of the budget and passing on some of the budget surplus to Australian taxpayers. The new rates are effective from 1 July, 2006.

Current income range \$	Current tax rate	New income range \$	New tax rate
0 - 6,000	0%	0 - 6,000	0%
6,001 - 21,600	15%	6,001 - 25,000	15%
21,601 - 63,000	30%	25,001 - 75,000	30%
63,001 - 95,000	42%	75,001 - 150,000	40%
95,001 +	47%	150,001 +	45%

Low Income Tax Offset

From 1 July 2006 has been increased to \$600 and will start phasing out after taxable income reaches \$25,000 and ceases at \$40,000. Effectively, if your taxable income is below \$10,000 you will not pay any tax.

Senior Australians

Amendments will be made to ensure that the Senior Australian Tax Offset will phase out only after income reaches \$24,867 for Single and \$41,360 for couples. Medicare Levy threshold will also be increased so that no Medicare Levy is payable until there is an income tax liability.



WOLLONGONG UNIVERSITY DEAN'S MERIT LIST

Congratulations to our Bomaderry staff member, Miok Choi-Payne, who received recognition for her outstanding results in studying for a Degree in Commerce, majoring in Accountancy by being named in the University Dean's Merit List. Wollongong University acknowledges students who are in the top 5% of their course. Well done Miok!

Medicare levy

In a similar vein to the change to the Low Income Tax Offset and changes to the tax rates, the thresholds at which Medicare Levy have increased also. The changes, effective from 1 July, 2006, are as follows;

Taxpayer	Current threshold	New threshold
Individuals	\$15,902	\$16,284
Families	\$26,834	\$27,478
Amount for each dependant child	\$2,464	\$2,523
Pensioners below age pension age	\$19,252	\$19,583

Removal of part-year tax-free threshold

Taxpayers commencing or ceasing full time study will, for the first time, no longer need to calculate a part-year based on months to find out their tax free threshold. They will be entitled to the full \$6,000 threshold from 1 July, 2006.

CLIFTONS EUROPEAN HOLIDAY

Ken & Olga Clifton are back from their first trip to Europe, 5 weeks touring western Europe in a campervan and 3 weeks in Holland with Olga's Dutch and Australian family.

Ken said "While some may prefer the luxury of 4 star accommodation and guided tours, we preferred the flexibility gained not having to book accommodation, and not having to live out of a suit case with continued packing up and leaving, and particularly meeting other campers. We stayed extra days and even completely changed our proposed itinerary when recommended to see Hitler's Nest (his alpine retreat)"

"We saw magnificent churches, museums, art, cities and small clusters of farm houses. But the most beautiful were

the Alps, the rare marmoset (a squirrel-like marsupial that lives in the Alps), meeting the people (both family and strangers) and learning a little of their lives, work, businesses and hobbies. And of course eating herring with Olga's dad (aged 89) and families in The Netherlands where she was born.

"It is wonderful to be a partner in a business that does not rely on any one individual, but has an amazing team so that a partner can be away for 8 weeks and come back to find everything running smoothly. This is a goal that I would encourage each business owner to work towards".



PETER COSTELLO'S SUPERANNUATION SURPRISE

Wins

- Lump Sum Benefits from a taxed super fund will be tax-free, as will Pension Payments.
- Pension income will not be classed as assessable income or need to be declared in a person's income tax return.
- Can contribute to super until 75 years old (*currently 70*)

Losses

- The strategy of contributing large sums (*from assets sold or by withdrawals from Super*) as undeducted contributions has been severely limited with maximum limited to \$150,000 pa.

Buying an Investment Property in your Self Managed Super Fund

You cannot use the Super Investment property as mortgage security but there are strategies that allow such a purchase by your super fund in partnership with you using another private property as security.

Over 55 and planning to retire in next 10 years?

If you have no surplus funds to invest into Super it may be worth while even borrowing against your home or other assets and investing the funds into super to take full tax advantage of the changed super rules.

We are not Financial Planners but do work with Planners to achieve maximum tax and wealth benefit for you. Contact us to speak to our preferred Planners, or discuss directly with your own financial planner before it is too late.

YEAR END TAX PLANNING

Get the free-kick superannuation, and a great return to boot!! If your taxable income is below \$28,000 and the majority of your income is from salaries and wages with your employer making the compulsory 9% contributions, a \$1,000 super contribution will be match by the government with \$1,500 from them. An instant 150% return!! The best part is it is an undeducted contribution, so when withdrawn in the retirement phase it is not taxed, only the earnings attract tax but whilst they are in the fund. The government contribution reduces as your income increases, and cuts out completely at \$56,000.

BUSINESS

THE NEW WORKPLACE LAWS

WorkChoices - Do you know how it affects you?

Changes took effect from 27 March, 2006. As residents of NSW, this new legislation will affect business' that are incorporated entities, State government employers, Commonwealth Authorities, Waterside Maritime and flight crew employers.

If an employer is a Sole Trader, Partnership or Trust, they are exempt from these new laws and there are no changes.

There are no changes for the NSW Laws covering:

- Workers' Compensation
- Occupational Health & Safety
- Anti-Discrimination Laws
- Vocational Education
- Workplace Surveillance Laws
- Trading hours
- Gazetted Public Hols
- Long Service Leave

So, what has changed in the new Standard?

- Minimum Conditions
- Awards & Agreements
- Termination of Employment
- Union right of entry
- Industrial Action
- Sale & Purchase of Business'

State or Federal Award's have been frozen for 3 years, however the Standard prevails over less favourable award conditions. State and Federal Agreements/AWA's that were in place prior to the introduction of WorkChoices remain current and prevails over Standard conditions.

You cannot 'contract out' of the Standard and the risks of breaching Standard can be compensation for underpaid employee's, injunction actions and/or \$33,000 (max) penalty.

The Commonwealth Government is holding National Seminar's that aims at providing employer's and employee's with an overview of the new laws and highlights the advantages and opportunities it provides. The 2 ½ hr seminars are being held throughout our local area and are FREE. Bookings are essential.

For more information: website go to www.workchoices.gov.au

Phone the Infoline on 1300 363 264

Events Information on 1300 762 975

INDEPENDENT CONTRACTORS BILL

This new Bill is scheduled to be introduced into Parliament in late May.

The Government is protecting the right of contractors to be truly independent. That is, to prevent them being roped into State laws which effectively force them to be an 'employee', and not 'independent contractors'.

Significantly, the Bill also protects genuine employees from "sham" contracting arrangements which are sometimes used by unscrupulous employers to avoid payment of legitimate employee entitlements, such as annual leave and superannuation. The Office of Workplace Services will have jurisdiction to investigate and enforce penalties.

The provisions of the Bill are in addition to changes already introduced in the WorkChoices legislation.

SMALL BUSINESS ENTREPRENEURS TAX OFFSET

The 2006 Income Tax Year is the first year of this tax offset for businesses with a sales income of less than \$50,000, phasing out at \$75,000.

The offset is up to 25% of the income tax liability attributable to your Simplified Tax System (STS) business income. If applicable our accountants will automatically register you for the Simplified Tax System as required to get the rebate.

You can be eligible for more than one tax offset, for example if you are an STS sole trader and also involved in an STS elected partnership. The crucial thing is that you are part of the Simplified Tax System, as otherwise this is not available. It is designed to benefit those people building a business and wanting to plough money back into the business rather than having it eaten up by income tax.

YEAR END TAX PLANNING

Simplified Tax System

The government has made further changes to their not so simple "Simplified Tax System", which now allows more flexibility than originally legislated. When preparing your 2006 Business Tax Returns Cliftons, your Business Specialist Accountants, will automatically review your taxable position and if you will benefit, will change you over to take advantage of the increased depreciation and other changes, but not without consultation with you.

Trading Stock (goods held for re-sale)

For stock takes at 30 June 2006 you can value the items at the lower of cost, replacement or estimated sales value. You do not need to value sundry supplies such as stationary, oil etc unless you are in the business of selling those products. Make sure you do a physical stocktake at 30 June, with values attributed on both a cost and sales value.

Personal Superannuation Contributions

If you are a sole trader or partner in a partnership you are able to claim a tax deduction for the first \$5,000 and 75% of any excess up to your aged based limit. The payment must be received by your Superannuation Fund by 30 June, 2006. The deduction is only available if any wages employment income received is less than 10% of your Assessable Income. Those in receipt of sole trader or partnership income only pass the test.

Employer 9% Superannuation Contributions

Do you have employees? Make sure you have calculated and paid the super for your employees for the June 2006 quarter by 30 June 2006 to gain a full tax deduction in the 2006 Tax Year. If this is not possible, make sure it is paid by 28 July, 2006, otherwise the tax deductibility is lost and you also face penalties and interest. The penalties are severe, being administration charges and interest to compensate the employee for lost superannuation earnings.

Debtors (sales money owing to you)

If accounting on accruals basis (where you issue monthly statements) we need the total amount owing to you at 30 June. Make sure any long-term bad debts are written off prior to 30 June as this will reduce your tax payable. It may also be beneficial to offer discounts for early payment to improve your cash position.

Creditors (expense monies owed by you)

Ensure you have an accurate and complete list of all monies owed by you as at 30 June. To be truly due and owing you must have received the good or service and have been issued with an appropriate invoice. These amounts can be claimed in the 2006 income tax year, effectively reducing the income tax payable.

Plant & Equipment / Assets

Review your assets listed on your 2005 Depreciation Schedule and scrap any obsolete, broken or disposed of items before 30 June and tell us so we can claim any balance not yet claimed. You can find a copy of the depreciation schedule included in your financial statements or income tax return.

Work in Progress (worked done but not invoiced)

What is the value at 30 June? If 2006 was a poor year, we can bring work in progress (WIP) in as an asset to increase your taxable income and then reduce your business income in a future high-income year, in effect using tax planning to your best advantage. Only that WIP which you believe is truly recoverable should be included.

Motor Vehicle kilometres

All passenger vehicles being claimed as a tax deduction need to have their total odometer reading at 30 June recorded (preferable in your Motor Vehicle Log Book if you have one).



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