



ACCOMPLISHED
ACCOUNTING SERVICES
WEALTH SOLUTIONS FOR SMALL BUSINESS

Quarterly Newsletter

March 2011



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Hi Everyone!

We hope you all had a wonderful Christmas and New Year. Can you believe it is already March?? Time to read our latest news.

Lodgement dates fast approaching:

Sharyn is currently working through the ATO list of clients who are yet to lodge their 2010 tax returns, or who have other outstanding lodgments and phoning or emailing reminders. We ask all clients to provide their information to us as soon as possible. We have noticed there are still many clients who are yet to submit their info to us, so we will have a huge job list leading up to the due dates.

Please remember, we tackle the job list on a first-in-first-served basis. We will need between 4-8 weeks to complete your work, which will then need to be sent to you for signing and returned to us for lodgement. Most clients have a due date for lodgement in May, so please allow us plenty of time to have your tax return lodged on time.

If you don't require us to prepare your 2010 tax returns, please let us know so we can update our system.

Negative gearing article:

Sharni recently wrote an article on negative gearing which we are pleased to include at the end of this newsletter. If you wish to discuss this further, please contact us for an appointment.

Tips for insurance policies and claims:

For all insurance policies, it is important to make sure that no liability is admitted in the event of an incident which could lead to an insurance claim. We have learned that some insurers may deny a claim where liability has been admitted to the other party, making it difficult or impossible for the insurer to defend the claim. Instead, you should simply exchange details and refer the matter to your broker/insurer immediately, so the insurer can defend the claim.

You may also wish to check to ensure your policies are 'exclusive of costs', so any insurance proceeds will not be reduced to cover the insurer's costs.

Superannuation binding death benefit nominations:

We remind everyone with a superannuation account that you should review your binding death benefit nomination with your super fund every 3 years. A binding death benefit nomination will inform the trustee of the super fund of how you wish for your superannuation to be distributed upon your death. Without a binding death benefit nomination, the trustee can exercise its own discretion as to how to payout your superannuation.

Importance of good records:

The Tax Office is continuing its use of industry benchmarks to target the cash economy and businesses that may be 'dodging' their tax obligations by omitting income from their tax returns. The ATO will compare figures reported in tax returns to the relevant industry benchmarks, and send letters to clients who are well outside of those benchmarks.

The ATO has emphasised that, unless their records show otherwise, they could apply the industry benchmark figures to the taxpayer, even if you don't believe the benchmarks are correct for your business! More information is available at:

<http://www.ato.gov.au/taxprofessionals/content.asp?doc=/content/00251723.htm>

Therefore, we urge all business clients to keep complete and accurate records, so the Tax Office will have no argument to apply industry benchmarks upon an investigation.

Flood Assistance and Disaster Recovery Payment:

The past few months have proven to be a turbulent time for Australians (and New Zealanders) with Mother Nature unleashing her wraith upon us. But there is help available.

The Tax Office can fast-track the processing of refunds for taxpayers in flood-affected areas. Please discuss this with us if you have been adversely affected.

Clients experiencing financial difficulties because of a natural disaster, can ask for more time to pay their income tax bill, or negotiate a payment arrangement. This includes amounts owing on activity statements. Where clients cannot afford to pay tax owing because they are suffering serious financial hardship, we may be able to apply to the Relief Board for relief.

Furthermore, the ATO can also help to reconstruct lost or damaged records.

A one-off payment is available for people who have been adversely affected by a disaster. If eligible you can receive:

- \$1,000 per adult
- \$400 for each child (under 16 years of age)

This payment is not means tested; however time limits do apply for application and payment, so we suggest you contact Centrelink as soon as possible to enquire. There is also financial assistance available for employees, small business persons and farmers who can demonstrate they have experienced a loss of income as a direct result of the flooding and severe weather.

Fees for advice:

We often have clients approach us for advice on a variety of issues such as negative gearing, taxation for property and share investing, tax structures, tax planning, capital gains tax, setting up a business, improving a business' financial position, employee shares etc. We absolutely love the opportunity to help our clients, but of course we too are running a business. Whilst we are happy to answer queries from time-to-time for no charge, where extended time is spent on providing advice, we will need to bill clients for our services.

For advisory services, the advice is naturally provided upfront, and a bill issued subsequent to the advice being provided. We have had a couple of instances where 'new' clients have not paid the bill, as they have received the advice already, but we are confident our existing clients value our services and appreciate that we offer a professional service, similar to solicitors, dentists and doctors, all of whom impose a fee for their time and professional knowledge. A 'profession' does require many years of education and commitment, followed by continued mandatory professional development. That, together with insurances and other general business costs, require us to charge commensurate fees for our services.

Payment slips for companies and Self-Managed Super Funds:

The Tax Office has advised that they will no longer issue payment slips in all circumstances for companies and SMSF's. Generic payment slips can be downloaded by going to the ATO website at www.ato.gov.au and entering 'payment slips for companies and super funds' into the search box in the top right corner.

If you do not have access to the internet, or require any assistance, please contact our office.

Late Self-Managed Super Funds being declared 'non-compliant':

The Tax Office has announced they will, and have, declared self-managed super funds as non-compliant where they have repeatedly lodged their tax returns after the due date. A non-compliant status will mean the super fund is taxed at 46.5% on its income, including contributions. Please bear this in mind and ensure you remain on top of your tax obligations.

New clients:

We wish to give a HUGE welcome to our new clients who have come on board during this past quarter. We work hard to provide a quality service to all of our clients and we are confident you will be very happy with our client-focused approach. Also, thank you to our wonderfully loyal clients who continue to refer their friends, family and business associates. We greatly appreciate your support and faith in us.

If you would like to view previous newsletters, please refer to our website at <http://www.accomplished.net.au/Newsletters.aspx>

These newsletters are packed with important tax, business & property information which may be relevant to you. In particular, there was a special property section in the June newsletter.

Important due dates:

Businesses should know that the due date for Business Activity Statements for the March quarter is April 28th. For employers, the due date for superannuation contributions to be paid for the March quarter is also April 28th, 2011.

Referrals & feedback:

We are always striving to improve how we do things, so please feel free to advise us of your feedback in relation to your experience with us.

Also, there is no bigger compliment than you being so pleased with our services that you refer your friends and family to us. Thank you to everyone who has referred someone to us. We really appreciate your support.

Conclusion:

Please don't forget to advise us when your contact details change so we can update the database. Email is the best method for communicating news, and we send a lot of emails to clients throughout the year, so please let us know your email address if you are not getting these.

Take care and see you soon! Sharni and the team

Disclaimer:

The information contained in this newsletter is general in nature and anyone intending to apply the information to practical circumstances should independently verify their interpretation and the information's applicability to their particular circumstances.



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NEGATIVE GEARING

Negative gearing describes the situation where you borrow to buy an investment (usually property, but also can be a portfolio of shares) and the interest and other costs you incur to maintain the investment exceed the income you receive from the investment.

A negatively geared property is where the interest and rental expenses to maintain the property (including depreciation) exceed the rental income. It is through negative gearing and the associated tax benefits that investors are able to purchase and accumulate real estate.

In the early years of a negatively geared rental property, the interest on the loan will usually be at their highest, as will claims for depreciation (where the diminishing value method is used). This means the annual losses are greater in the earlier years of the investment.

The Tax Office allows the losses incurred on a property held as a rental property to be deducted against their other income, such as employment and business income. This reduces the assessable income of the investor, and therefore the tax the investors pays each year.

Let's look at an example:

Simone is employed as an advertising manager and earns a salary of \$95,000 per annum. For simplicity, we will disregard any work-related deductions, and assume that her taxable income is also \$95,000 (although a good tax agent should be able to work some magic here!).

On 1st July, 2010, Simone purchased a 2-bedroom unit in Richmond for \$400,000. She owns her own home in Ringwood, which has been valued at \$600,000. She has a loan secured against her Ringwood home of \$350,000.

Her accountant advises Simone to refinance her home to 80% of its value, which will give her a new loan for \$480,000. From this new loan, Simone uses \$350,000 to pay out the original loan against her home, which leaves her with \$130,000 of her new loan. This can be used towards the purchase of her investment unit in Richmond. (Note, your mortgage broker and accountant should discuss the loan structure to ensure it will be tax effective).

Simone takes out a loan against the Richmond unit for 80% of its value ie. \$320,000, but the unit price is \$400,000 and she will also need to pay for stamp duty and other purchase costs. This means she will require an additional \$80,000 towards the purchase price, plus say 5% to cover purchase costs, being \$20,000. So Simone will need another \$100,000. This is what the \$130,000 of new funds available from the equity in her home can contribute to.

So Simone has effectively borrowed the full amount to purchase her investment unit ie. \$420,000.

We will also make some assumption in relation to depreciation of the fittings and also the building.

Here's how the negative gearing will work:

	SCENARIO 1: No negative gearing	SCENARIO 2: Negative gearing (paying cash for deposit & costs, so total loan \$320K)	SCENARIO 3: Negative gearing (using equity in other property for deposit, so total loan \$420K)
Taxable income before gearing	\$95,000	\$95,000	\$95,000
Rental loss:			
Rental income		\$21,000	\$21,000
Interest on loan/s *		(\$22,400)	(\$29,400)
Council, water, insurance		(\$3,000)	(\$3,000)
Agent commission		(\$1,000)	(\$1,000)
Depreciation**		(\$4,000)	(\$4,000)
Building write-off ***		(\$5,000)	(\$5,000)
Total rental loss		(\$14,400)	(\$21,400)
Taxable income after gearing	\$95,000	\$80,600	\$73,600
Tax on taxable income **** (excluding Medicare levy)	\$23,100	\$17,772	\$15,630
Tax benefit		\$5,328	\$7,470
Net rental loss after tax refund		(\$9,072)	(\$13,930)
<u>Cash</u> rental loss after tax refund		(\$72) (\$5,400 - \$5,328)	(\$4,930) (\$12,400 - \$7,470)

* Interest only loan at 7%

** Depreciation for 1st year (say \$40,000 of fittings at 10% diminishing value method)

*** Building depreciation at 2.5% per annum using the prime cost method (construction cost \$200K)

**** Tax is calculated on current tax rates predicted for 2010/2011 year

Here are some observations from this comparison:

- The more you borrow, the more tax can be saved.
- The cash rental losses in the early years will usually be compensated by good capital growth in the value of the investment.
- The weekly out-of-pocket cash cost of Scenario 2 is \$1.38
- The weekly out-of-pocket cash cost of Scenario 3 is \$94.81

Not much is it, considering the investment will also experience capital growth over time too!

But, what if you aren't comfortable with this out-of-pocket amount?

That doesn't have to stop you from negative gearing investment. There is an alternative to receiving a nice big refund of tax at the end of each year.

The Tax Office is prepared to grant a downward variation to the amount of tax your employer withholds on your periodic salary payments. This means each pay will have a lower amount of tax, and therefore you will receive a higher net pay each period. This can be used to help fund rental expenses throughout the year.

It effectively means you will receive your tax refund throughout the year via higher net wages, rather than receiving a big refund when you lodge your tax return. Whether you would rather the additional cash inflow throughout the year, or prefer a lump sum at the end of the year will depend on your personal circumstances and preferences.

The application form can be downloaded from the ATO website, but beware, if you prepare it with inaccurate information which result in more than a 15% variance when you lodge your tax return at the end of the year, the Tax Office is unlikely to grant you another Pay As You Go variation.

It may be wise to ask your accountant to prepare the application each year. The fee will be tax deductible too!

More information is available at www.ato.gov.au (enter 'payg variation' into the search box).

In summary, negative gearing involves an investment property generating a loss, BUT the tax man and the tenant are paying you which minimizes that loss. Furthermore, the property grows in value giving you more equity to utilize for future property purchases, growing your property portfolio over time.

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The greatest compliment we can receive from our clients is the referral of their friends, family and small business colleagues. Thank you for your trust.



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