

Merry Christmas

We wish you and your family a happy and safe Christmas.

We look forward to working with you to make 2007 the best year you've ever experienced.

The Partners & Team
Waterford Accountants

What's in store for you & your business in 07?

2007 sees the end of the economic boom time but there is still plenty of opportunity for those in the know.

The economy and interest rates

Interest rates are expected to rise again in the New Year. According to Westpac's Chief Economist Bill Evans, the rate hike of November 8 betrayed a lack of calm on the medium term inflation outlook, a clear pointer to a more restrictive future policy setting. The most likely window for an additional move is February.

If the predicted rate increase eventuates in February, it will come at a bad time. February is traditionally the tightest cash flow month of the year following the Christmas period and the extended BAS payment deadline of 28 February.

After the Christmas debt feast many people will face a New Year cash famine struggling to pay higher mortgage repayments. It will be more important than ever to stay on top of your debtors.

If you haven't already, have a banking review completed to assess the cost of your cash for both your business and personal investments. If it's been a while since you last took a good look at the structure of your finances, now is the time to do it.

Standardising the definition of small business

The Government announced that it will standardise the eligibility criteria for small business tax concessions from 1 July 2007. From this date, any small business with annual turnover of less than \$2 million will be able to access the GST, STS, CGT, FBT and PAYG small business concessions.

Businesses with existing access to CGT, FBT or PAYG small business concessions will not lose out under the new arrangements. Those benefits will apply to businesses that meet the new small business definition or that meet other existing eligibility criteria.

Unfortunately, the devil is often in the detail and we won't see the legislation until well into the New Year.

Changes to capital gains tax & small business

A number of concessions exist to help reduce the impact of capital gains tax (CGT) on the sale or transition of small business. In some cases, the concessions enable small business operators to reduce their CGT liability to zero.

As you would understand the concessions are popular but the complexity of the qualifying tests mean that many fail to access the concessions.

In 2007, these small business CGT concessions should be easier to access. If you are selling a business or thinking about your business structure to prepare for succession, then you will want to be aware of these concessions and changes.

Most of the changes were announced in the 2006 Federal Budget with the Treasurer announcing further changes in November this year.

The problem with all of these changes is that we have the basics from the press releases and Budget papers but no legislation to tell us exactly how they will apply. In some cases the changes are already operational despite the fact that we don't have the detail. In other cases the changes commence on 1 July 2007.

The most important changes announced are:

1. Currently, to access many of the small business CGT concessions, a company or trust needs to have a "controlling individual". This is a person who holds at least 50% of the rights in the company to dividends, capital and voting power. This has been a problem for some businesses where there were more than two shareholders. The new rules only require a 20% stake. This will

- open up the concessions to more small business owners.
2. The current maximum net asset test - the maximum value of assets that the company or trust and its related entities can hold to qualify for the concessions - will be increased from \$5 million to \$6 million.
 3. Where a business has entered the Simplified Tax System (STS) it will not be subject to a maximum net asset test.
 4. To access the concessions the assets being sold need to meet the requirement of being an "active asset". There are definitions on what constitutes an active asset but essentially it is an asset connected with and used by the business. Where an asset ceased to be an active asset and was later sold, it's likely to fail this test and lose access to the concessions. Under the Budget changes, an active that is sold within twelve months of ceasing to be an active asset will still qualify for the concessions.

The small business CGT concessions are valuable if you can access them. In many cases they allow you to reduce your tax exposure on the sale of a business to zero. In some cases the timing of your business sale could produce a very different tax result. Make sure that you talk to us before you commit to any transaction.

Major superannuation reform

2007 will see a significant change to superannuation. From 1 July, the way superannuation is taxed and much of the complexity of the existing system will be removed.

If you are within 10 years of retirement, these changes are likely to impact on the way you manage your super and the investment decisions you make. Here's a summary of the key changes:

- From 1 July, the tax currently imposed when you cash out your superannuation as a lump sum or pension will be removed for people aged 60 and over (where the superannuation benefit is from a taxed source).
- The reasonable benefits and age based contribution limits will be removed from 1 July.
- There will be greater flexibility as to when and how you take your superannuation. At present, lump sum payments and pensions are taxed differently. The new rules streamline the treatment of lump sum payments and pensions to remove this distinction.
- From 1 July, if you are self-employed you will be able to claim a full tax deduction for your super contributions. Currently, the self employed receive a full deduction for the first \$5,000 of super contributions and then 75 percent after this.

For those with self managed super funds, it will be essential to update your trust deed to ensure that you can benefit from the changes. As your trust deed determines how benefits can be paid and to whom, your deed needs to take account of the changes before you can act.

ATO audit activity

The Tax Office has made no secret of its audit targets.

Employers continue to be in the spotlight with a focus on PAYG withholding issues such as poor record keeping practices and a lack of understanding of the less common issues such as termination payments

In addition, many employers are failing to correctly identify fringe benefits and as a result, not meeting their obligations. This is very common for fringe benefits related to motor vehicles and expense payment benefits.

Other targets include:

- Low documentation loans. The ATO is data matching to ensure that the information provided to the financial provider matches what has been declared on tax returns.
- Landlords. More of the same scrutiny for investment property owners. A particular focus is on the deductions claimed for property expenses, in particular repairs and maintenance.
- Capital gains made on shares and property.

WorkChoices

The record keeping requirements for employers come into full force on 26 March 2007 when workplace inspectors start issuing fines for non-compliance.

Employers need to ensure they keep the appropriate documentation including accurate time records for casual staff and of over time and penalty rates.

Did you know?

The word "Christmas" means "Mass of Christ," later shortened to "Christ-Mass." The even shorter form "Xmas" - first used in Europe in the 1500s - is derived from the Greek alphabet, in which X is the first letter of Christ's name: Xristos, therefore "X-Mass."

Quote of the month

Happy, happy Christmas, that can win us back to the delusions of our childhood days, recall to the old man the pleasures of his youth, and transport the traveler back to his own fireside and quiet home!

Charles Dickens

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