

NEWSLETTER - October 2011

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Welcome to our October Newsletter!

We accountants often get asked about changes to tax laws which are announced by our politicians on budget night.

I usually remind my clients that political hot air blows hardest at well publicised events like elections or Federal Budget nights.

Until any proposed legislative changes have been drafted into a bill, put before the lower house of parliament, dealt with the obligatory delays, deferrals and amendments, finally passed by the lower house, rejected by the senate, amended and passed by the lower house again, passed by the senate and finally granted royal assent, they are not law.

This issue I have focused on a number of changes that were announced in the Federal Budget back in May that have since made the long and arduous journey into law.

I hope you enjoy the read.

A handwritten signature in black ink that reads "Anthony Jelich". The signature is written in a cursive, flowing style.

Anthony Jelich MTMA JP
Accountant

Changing Office Hours

The beginning of October marks the return to our regular office hours now that the peak of the tax season is behind us.

From Tuesday the 4th of October our regular office hours return to 8:30AM to 5:00PM Monday to Friday.

We also remind our clients that our office is closed from 12:00PM to 1:00PM daily as we are out to lunch.

Phase out of the Dependent Spouse Offset

From the 1st of July 2011 the spouse offset will no longer be claimable for a dependent spouse born on or after 1st July 1971.

Clients who maintain an invalid or permanently disabled spouse, will still be able to claim for their spouse under an expanded invalid spouse offset.

We advise affected clients that have been claiming the spouse offset via reduced PAYG withholding from their wages, that they will need to lodge a revised withholding declaration with their employer.

The ATO is endeavouring to contact any such taxpayers.

Childrens' Bank Accounts

Legislation announced in the May budget to remove the low income earners tax offset for the unearned income (Eg, bank interest, dividends, trust distributions) of minors received royal assent on the 27th June 2011.

From the 1st of July 2011, unearned income received by children under the age of 18 will be subject to a tax free threshold of \$416, down from the current effective threshold of \$3334. Minors' income in excess of their tax free threshold can be taxed at up to 66%!

This measure will not affect those minors who are, for example, disabled, an orphan, or were engaged in a full time occupation at the end of the income year.

In addition, income earned by minors from the investment of any property transferred to them as a result of compensation payments, inheritances or marriage breakdown will also not be affected by this measure.

Minors will still be able to use the low income tax offset to reduce tax payable on their earned income such as salary and wages.

We advise affected clients to review their situation and contact their accountant for further advice.

Of More Interest

In related news, the 50% tax discount on the first \$500 of interest earned by a taxpayer each year was pushed back to the 1st July 2012 in the May budget.

As the legislation has not yet been enacted, we are as yet uncertain as to whether this discount will apply to interest earned by minors.

Watch this space.

Super Changes.....Again

The 2011-12 Federal Budget announced a number of proposed changes to the superannuation system.

Some of these proposals include;

- extending the availability of the \$50,000 concessional contribution cap for those over the age of 50 beyond the 1st of July 2012, but only for persons with super balances of less than \$500,000;
- requiring employers to include details of the amount of super actually paid into their employees super accounts;
- The introduction of an electronic service for taxpayer to view the details of super funds that have reported them as a member to the ATO.

On the self managed super side of things the government has tightened up the legislation on SMSF's that invest in collectables and personal use assets (eg, artwork, coins, stamps, etc).

The new rules require that such assets;

- Must not be leased to a related party;
- Must not be stored in the private residence of a related party;
- Must be insured in the Fund's name;
- Must not be used by a related party;
- Must document the decision on the storage locations of affected items.

The new standards apply to all new investments from 1 July 2011, with existing holdings of collectables and personal use assets to comply or be disposed of by 1 July 2016.

The new changes also come with an increase in the SMSF levy from \$150 to \$180 per annum which takes effect for the 2011 tax return.

Look Out! It's a Leap Year!

As some of you may already be aware, 2012 is a leap year. More importantly for accountants, 2011/2012 is a leap financial year.

Leap years inevitably mean that some employees end up having a 53rd weekly or 27th fortnightly payday roughly every 4 years depending on what day you get paid.

The extra payday means that affected employees' wages will be undertaxed throughout the year, as the tax tables are all worked out using formulas based on 52 weeks or 26 fortnights.

To counter this, payroll departments usually contact employees affected by this event to arrange for some additional tax to be withheld from each pay. Failure to do so may result in additional tax being payable when you lodge your 2012 income tax return.

The extra income can also push your total wages higher than usual, which may affect areas of tax based on level of income, such as HELP debt repayments and liability for the medicare levy surcharge.

The effects of the extra payday also need to be considered when lodging family tax benefit estimates with family assistance, or calculating how much you salary sacrifice into your superfund each pay to ensure that you do not breach your concessional contributions limit.

We advise clients to double check with their payroll department to work out whether they are affected by an extra pay period and review their affairs accordingly.

The Importance of Lodging on time

This time of year we are often asked, "When is my tax return due?" Usually, the asker is only concerned that they will be fined by the ATO for not meeting their lodgement obligations.

While it is true that the ATO does usually go for the easy of option, applying fines or shortfall interest charges, to "encourage" taxpayers not to be tardy, there are many other good reasons to ensure that you lodge your tax return on time.

For many taxpayers, the Family Tax Benefit is the single most persuasive factor in ensuring they lodge their returns in a timely fashion.

Usually the lodgement of the tax return results in a nice lump sum payment of any residual benefits owed. However, the failure to submit a return within the timeframe specified by the family assistance office can trigger the cancellation of fortnightly payments or, at the extreme, the repayment of any benefits received for the year of the outstanding return.

For taxpayers contemplating study funded by a student loan under the Higher Education Loan Program, it is equally important to ensure that your lodgements are up to date.

Compulsory repayments of student loans are deducted from all returns assessed while a student loan is outstanding, even if the loan did not exist during the financial year in question! In extreme situations, this can trigger circumstances where an entire student loan is repayable immediately.

The best way to avoid these sticky situations is to be proactive and ensure that you submit your tax return on time each year. More information on lodgement due dates can be found on our website.