

# RSM Bird Cameron

Chartered Accountants

## Albany Connections

Summer 2012 edition

RSM Bird Cameron's essential update connecting you with tax and financial issues and the firm's activities in Albany.

### Staff News

Since you last heard from us a lot has happened with the Albany office and its staff, with the arrival of a newborn, engagements, graduations and Christmas parties.

In June, Tom Warner from our office decided to pop the question to his girlfriend Megan and asked her to marry him. A romantic dinner and a fortune cookie later they were engaged. They will be getting married in March this year and are counting down the days.

July saw Helen Harness celebrate 25 years with the firm. We all congratulate Helen on this milestone and wonder sometimes how she has done it.

Below: Helen Harness who celebrates 25 years of service with the firm



Above: Jo Gilbert's newest addition, Lewis Peter Gilbert

In September, Joanne Gilbert gave birth to a 10-pound 6-ounce healthy bouncing baby boy called Lewis Peter Gilbert. Jo, Kaien and their other boy Henry, who is now almost 2 years old, are delighted at the new addition to the Gilbert household and Jo is currently enjoying some time off from work with her family. Jo will be returning to work in July 2012.

The start of December saw Stewart Madson graduate and receive his Bachelor of Business, majoring in Accounting from Charles Sturt University. Stewart will continue to further his education next year.

Wendy and James have both entered into the world of home owning recently. James purchasing his first home and Wendy completing the building of her home. Both are settling in well to their new houses.

The Albany office staff let their hair down recently for their end of year Christmas party. They attended a BBQ lunch at Frenchman's bay as they enjoyed the beautiful summer day, a delicious BBQ and a spot of beach cricket.

All the staff in the Albany office hope our clients have enjoyed a safe, happy Christmas and New Year's break and now look forward to another excellent year with them.



## Rental Property Investment

It is important that prospective and current property owners understand the taxation implications of their investment. The purchase and ownership of a rental property can incur many expenses which may be categorised differently for tax purposes:-

Some expenses on the initial purchase are capitalised and treated as part of the asset cost base for future CGT purposes.

These may include:

- stamp duty on the transfer of the property title
- conveyancing and settlement costs
- building & pest inspection reports

Some expenses can be claimed as a 100% tax deduction immediately. These may include:

- interest on the rental property purchase
- interest on a depreciating asset for the property
- interest on renovations or

maintenance

- repairs and maintenance
- costs of preparing a lease agreement with your tenant
- costs associated with evicting a tenant
- travel costs when the main purpose is tending to your rental property
- insurance
- land tax
- rates
- advertising for tenants

Some expenses are claimed over many years or the life of the asset.

These may include:

- the total cost of construction or building improvements
- purchase and replacement of items such as a hot water system or air conditioner
- borrowing costs such as stamp duty on mortgage and loan establishment fees

Certain types of rental expenditure are constantly scrutinised and targeted by the Australian Taxation Office due to lack of understanding of the tax rules or incorrect claims.

These may include:

- deductions for rental properties not genuinely available for rent
- interest on the drawdown of a loan used for other purposes
- travel expenses
- deductions for repairs which in fact are improvements to be

depreciated

- rental to related parties for non-commercial rental rates

When acquiring an investment property, it is important to consider in whose name (eg, sole or joint ownership, tenants in common, family trust, etc.). Expenses can only be claimed in the respective proportion of ownership. This can have tax implications when there are large interest expenses resulting in the property being negatively geared, or when the joint owners have different taxable incomes from other sources. If you are considering investing into a rental property, it is important to seek professional advice from your accountant so as to ensure good understanding of the taxation issues.

## Review of Trust Deeds

You may have read a lot over the past year on the legislative changes to the tax treatment of trusts and income distributions from trusts. This was initiated by the now famous Bamford case won by the ATO where flexibility of income distributions were seriously restricted.

Worst hit were primary producers where trusts incurring losses may have resulted in beneficiaries potentially being no longer eligible for income averaging and farm management deposits. Fortunately common sense prevailed, and amendments were introduced to

reinstate the primary producer status of such trust beneficiaries.

Notwithstanding this, trusts generally now have limited capacity to distribute income as freely and as flexible as they once could. Further, the ATO have tightened up on their definition of income, and are making sure that trusts can only distribute such income in accordance with their deed.

However its not all bad news. As long as the trust deed allows we can still differentiate between selected classes of income, particularly capital gains, and franked dividends. With very carefully considered and constructed distribution minutes, this does still allow us good opportunity to tax plan and achieve the optimum tax outcome. But what this does mean is that we must painstakingly review every single trust deed, some of which are 40 to 50 pages long, to seek out the trust's definition of income to ensure that it complies with that required by the ATO. Having reviewed many deeds over the past four months, its amazing just how many different definitions there are in various disguises, many of which require subsequent amendment to the deed.

Further, we must also ensure that the trust deed allows for the streaming of income so as to be able to distribute different classes of income to various beneficiaries. Again this is not a straightforward process and many older deeds do not address this,

therefore also requiring amendment to the deed by a solicitor.

Please be aware that this is a major issue requiring diligent examination of the deeds, which certainly adds time and cost factors to the process, and may require legal work on your trust deeds. However rest assured that we are taking these necessary steps to ensure that your trusts are compliant and remain an effective entity for your tax and business



needs.

### **Drought Pilot Farm Family Support payments**

'When do we need to tell Centrelink about the increased incomes that we are generating this season?' was a question we posed at a recent round table session at the Department of Agriculture in Narrogin.

When the income of a business changes or is anticipated to change,

the recipient should notify Centrelink. Knowing that you might receive increased incomes is a trigger and is the event that needs to be notified to Centrelink. At this time a new profit and loss estimate should be generated if income is different to that previously estimated.

The example used in response to our question was the point during harvest when income change is likely to be known (best guess). Income estimates can be based on the price on the day even if held in warehousing for better price and not sold.

Once Centrelink has been notified of this likely higher income, it was advised that the payments would stop if the new profit and loss estimate is unable to be completed within 14 days from the notification, and the client would then have a month (or even up to 13 weeks) to submit amended profit and loss estimates, at which time eligibility is re-assessed.

By following this process, it was advised that there would not be any penalties, and no repayment of the benefits paid to that date.

If Centrelink is not advised of the change of circumstances, and Centrelink amends entitlements upon lodgement of 2012 tax returns (i.e. after June 2012) it is understood that repayment of the benefits paid for the 2011/2012 year will be requested and penalties may be applied.

## Superannuation Contributions

It may pay to ask your accountant about what you can put into superannuation this year. Currently the superannuation concessional (deductible) contribution cap is \$25,000 per individual for the 2011-12 financial year. The 2011-12 financial year is the last year in which superannuation contributions are doubled for over 50's, meaning that if you are 50 or over (but less than 75) and meet the definition of self employed you will be able to put up to \$50,000 into superannuation and claim a tax deduction for the amount. The government has announced changes that, if passed by parliament, will permanently increase the concessional contributions cap to \$50,000 for individuals who have total super balances below \$500,000 and are 50 years old or over. These changes have not yet become law however we will keep you informed once the information becomes available.

### Accessing Your Superannuation

If you are thinking about becoming semi-retired and withdrawing part

of your superannuation interest but are not yet 65, you must meet certain conditions. Firstly, you must have reduced your working hours, secondly, your superannuation provider has to allow withdrawals before 65 and lastly, you must have reached your preservation age.

Once you reach preservation age you can legally start withdrawing part of your superannuation entitlement via a Transition to Retirement Income Stream (TRIS). Your preservation age is dependent on when you were born as per the following table -

Born	Preservation age
Before 1st July 1960	55
After 1st July 1960	56
After 1st July 1961	57
After 1st July 1962	58
After 1st July 1963	59
After 1st July 1964	60

If you are considering the move to semi-retirement feel free to ask your accountant how it will impact your financial life. A quick phone call can save a big headache in the future.

### Co-Contribution Reduction

The government has announced

that from the 1st July 2012 the co-contribution amount will be reduced from one dollar per dollar contributed (up to \$1000) to fifty cents per dollar contributed. This reduction means that those earning over \$46,920 will not receive any co-contribution however those earning under \$31,920 will be able to receive the full \$500 if they contribute an extra \$1000.

The upper limit for partial co-contributions in the current financial year is \$61,920. If you are considering making a contribution to receive the co-contribution, a calculator is available on the Tax Office website located at: Individuals > Rates and calculators > Calculators > Superannuation



**The management and staff of the RSM Bird Cameron Albany office wish you a safe and happy Christmas and New Year.**

Our one-firm structure enables us to provide strong connections and a focus on client relationships. Clients can readily connect to our national and international expertise and networks, our extensive understanding of Australian business and to our directors and senior advisors. With RSM Bird Cameron you really are... Connected for Success.

[www.rsmi.com.au/albany](http://www.rsmi.com.au/albany)

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