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June 2016

## 2016 Federal Budget Highlights

Treasurer Scott Morrison's 2016/17 Federal Budget delivers a budget deficit of \$39.9 billion which is down from \$41 billion in 2014/15. The deficit is projected to drop to \$37.1 billion in 2016/17, \$26.1 billion in 2017/18, \$15.4 billion in 2018/19 and \$6 billion in 2019/20.

Mr Morrison's first budget centred on the theme of 'targeted' and 'responsible' economic planning, which the government says is essential as Australia's economy continues to transition away from the mining investment boom. In his budget speech, Morrison said the government's economic plan is based on three key principles - encouraging jobs and growth, fixing elements of the tax system and continuing to ensure the government lives within its means to balance the budget and reduce the burden of long term debt.

It targets growth tied to an ambitious national innovation and infrastructure plan aimed specifically at growth and jobs. With the federal election on July 2, the focus is to transition from a mining-led economy to a stronger, more diverse economy and set the country on a more sustainable footing to bring the budget back to balance.

The budget provides benefits for businesses both big and small, plus there are significant changes to the superannuation sector that we will explore in this newsletter.



## Personal Taxation

The government has announced a change to personal income tax rates to avoid 'bracket creep' where inflation pushes people's salaries into higher income tax brackets without an increase in their spending power. From July 1, 2016 the threshold for the 32.5% tax rate will be increased from \$80,000 to \$87,000. In effect, half a million workers earning over \$80,000 have been given a tax cut and a worker earning over \$87,000 will be up to \$315 better off every year. It has also confirmed the drop in the top marginal rate from 49% to 47% from 1 July 2017.

From 1 July 2016, the following individual income tax rates will apply:

Taxable Income	Tax Payable on this income*
0 - \$18,200	Nil
\$18,201 - \$37,000	19c for each \$1 over \$18,200
\$37,001 - \$87,000	\$3,572 + 32.5c for each \$1 over \$37,000
\$87,001 - \$180,000	\$19,822 + 37c for each \$1 over \$87,000
\$180,001+	\$54,232 + 47c for each \$1 over \$180,000

\* This excludes the 2% Medicare Levy

Importantly, the government has confirmed that the 2% Temporary Budget Repair Levy will expire at the end of the 2017 income year, returning the effective top marginal tax rate to 45%. The government has also announced that there will be no increase for indexation to the income thresholds for the Medicare Levy Surcharge and the Private Health Insurance Rebate for a further three years to 1 July 2021.



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

## Reductions In Corporate Tax Rate

As part of its 10 Year Enterprise Tax Plan, the Government announced a program to cut the company tax rate to 25% over the next 10 years. This measure will commence from July 1, 2016 when the government will cut the company tax rate to 27.5% for small companies with an annual aggregated turnover of less than \$10 million. According to the budget papers, this will deliver a lower tax rate for around 870,000 companies that employ more than 3.4 million workers.

The turnover threshold will then be progressively increased and ultimately all companies with a turnover of \$1 billion or less should have a flat tax rate of 27.5% by the 2023/24 income year. In the 2024/25 income year, the company tax rate will be reduced to 27% and then be reduced progressively by 1 percentage point each year until it reaches 25% in the 2026/27 income year.

These measures introduce the first significant company tax cuts in over a decade, with the last one occurring in 2001 under the Howard Government. Franking credits will be distributed in line with the rate of tax paid by the company.

Reducing The Company Tax Rate To 25%		
Date of effect :	Progressively from 2016-17	
Year	Company annual aggregated turnover	Tax rate
2016-17	Less than \$10 million	27.5%
	\$10 million or more	30%
2017-18	Less than \$25 million	27.5%
	\$25 million or more	30%
2018-19	Less than \$50 million	27.5%
	\$50 million or more	30%
2019-20	Less than \$100 million	27.5%
	\$100 million or more	30%
2020-21	Less than \$250 million	27.5%
	\$250 million or more	30%
2021-22	Less than \$500 million	27.5%
	\$500 million or more	30%
2022-23	Less than \$1 billion	27.5%
	\$1 billion or more	30%
2023-24	All	27.5%
2024-25	All	27%
2025-26	All	26%
2026-27	All	25%

## Increasing The Small Business Income Tax Offset ('SBITO')

From 1 July 2016, the government will increase the current 5% tax discount (referred to as the SBITO) to 8%. The discount in tax payable is currently available to an individual in receipt of income from an unincorporated small business entity (basically an entity with an aggregated turnover of less than \$2 million) and applies to the income tax payable on the business income received from such an entity.

Year	Tax Discount
1 July 2016 – 30 June 2024	8%
2024-25	10%
2025-26	13%
2026-27	16%

The turnover threshold for access to the unincorporated small business income tax offset for individuals will increase from \$2m to \$5m and the discount will remain constant at 8% for eight years and will then increase to 10% in 2024/25, 13% in 2025/26 and 16% from 2026/27.

The current discount cap of \$1,000 per individual for each income year will remain unchanged.

## Medicare Levy Low Income Thresholds For 2015/16

For 2015/16, the Medicare Levy low income thresholds will be as follows:



2015-16 Income Year Threshold	
Individuals	\$21,335 (previously \$20,896)
Couples (no children)	\$36,001 (previously \$35,261)
Family income threshold increases by:	\$3,306 (previously \$3,238) for each dependent child or student.
Single seniors and pensioners with no dependants	\$33,738 (previously \$33,044)
Senior and pensioner couples with no children	\$46,966

## Access To Small Business Tax Concessions

As a boost for small businesses, the Government will extend access to a number of small business tax concessions by increasing the annual turnover eligibility threshold from \$2m to \$10m. These measures will apply from July 1, 2016 and they expand the number of small business entities able to access the concessions. From a tax planning perspective some small business owners may look at the timing of their expenditure with the start date being July 1, 2016.

Under the announced measures, businesses with a turnover below \$10m will now be able to access a range of existing small business tax concessions. The increase in the threshold will allow an additional 90,000 to 100,000 business entities access to concessions including:

- The lower company tax rates detailed in this newsletter
- Simplified depreciation rules, including the immediate tax deduction for assets costing less than \$20,000 (up until 30 June 2017)
- Simplified trading stock rules that give businesses the option to avoid an end of year stocktake if the value of their stock has changed by less than \$5,000.
- Simplified method for PAYG instalment payments
- The option to account for GST on a cash basis and apply the simplified method of GST instalments payments
- Immediate deduction for prepaid expenses
- Immediate deduction for professional expenses
- Fringe Benefits Tax concessions, including exemptions for car parking and work-related portable electronic devices (applicable from 1 April 2017).



The current \$2m turnover threshold will be retained for access to the small business CGT concessions.

## Superannuation Changes

By far the biggest area of concern in this Budget is around superannuation.

With Australians working through a debt cycle of HECS repayments, mortgages and costs associated with their children's education, it's often not until their 50s that people can afford to ramp up their super contributions. The reduction of the annual contribution limit and a \$500k cap on after tax super contributions removes that option. The government has stated that the purpose of superannuation is not wealth accumulation, but the provision of income for retirement but these superannuation changes erode the ability of Australians to provide for their own retirement.



The Government believes that many of the new measures affect less than one per cent of superannuation fund members and are designed to help people with low superannuation balances and will encourage superannuation contributions for spouses with low incomes. The work test has been abolished for people under 75 years (but over 65 years).

- **Increased Tax on Super Contributions for High Income Earners** - Currently, when personal income exceeds \$300,000 the tax payable on any superannuation contributions increases from the standard concessional tax rate of 15% to 30%. The government has now proposed to decrease this income threshold from \$300,000 to \$250,000 per year from 1 July, 2017.
- **Concessional Contribution Caps** – Currently, the annual cap on concessional (before-tax) contributions is \$30,000 for under-50s and \$35,000 for those aged 50-plus, however, both these will decrease to \$25,000 per year effective 1 July, 2017. These concessional contributions are generally superannuation guarantee (SG) contributions and salary sacrifice.
- **Non-Concessional Contribution Caps** - Current legislation allows for non-concessional (after-tax) contributions of \$180,000 or \$540,000 every three years for people under aged 65. These contributions are usually voluntary and

## Superannuation Changes (Continued)

effective 3 May, 2016 they will be subject to a lifetime cap of \$500,000, taking into account all non-concessional contributions made since 1 July, 2007.

- **Catch Up Contributions for Individuals who have Time Out of the Workforce** - From July 1, 2017 the Government will allow individuals to make catch-up concessional super contributions for those people with balances under \$500,000. This measure is to allow people with lower contributions, interrupted work patterns or irregular capacity to make catch up contributions to their super.
- **Low Income Superannuation Tax Offset** – A new scheme will be introduced that provides a tax offset of up to \$500 p.a. on concessional superannuation contributions for individuals earning less than \$37,000 per year, effective 1 July, 2017.
- **Transfer of Superannuation into Retirement Phase** – From July 1, 2017 a cap of \$1.6 million will be placed on the transfer of superannuation balances into the tax-free retirement phase (Pension accounts). Any existing Pension accounts with balances beyond \$1.6 million will have to be transferred into accumulation accounts and will be subject to up to 15% tax.
- **Extended Ability to make Contributions** – From 1 July, 2017 the Government is extending the ability for all individuals aged between 65 and 74 to make concessional tax contributions to their superannuation, and to make or receive payments from their spouse, without having to meet the current work test criteria.
- **Spouse Contribution Tax Offset** - The tax offset for spouse contributions where the spouse income was previously less than \$10,800 has now increased to \$37,000 per year effective 1 July, 2017.
- **Easing of Restrictions on Tax Deductibility of Personal Super Contributions** – From 1 July, 2017 the Government will allow individuals, regardless of their employment status, to make concessional super contributions up to the concessional cap (subject to 15% contribution tax). Individuals can claim a personal income tax deduction for personal super contributions.
- **Transition to Retirement (TTR) Accounts** – The existing tax exemption on investment earnings for supporting TTR income streams will be removed from 1 July, 2017. This means members with a TTR accounts will now have their investment earnings subjected to 15% tax.
- **Anti-detriment death benefit provisions** - From 1 July, 2017 'Anti-detriment' payments previously made as part of the death claim process to beneficiaries of a deceased member from super will be removed. These payments were the result of any contribution tax paid from a member's account over their lifetime.



## Applying GST To Low Value Imported Goods



From July 1, 2017, GST will be extended to low value goods imported by consumers. The intent of this measure is to ensure that low value goods imported by consumers face the same tax regime as goods sourced domestically.

Overseas suppliers that have an Australian turnover of \$75,000 or more will be required to register for, collect and remit GST for low value goods supplied to consumers in Australia, using a vendor registration model. This change still requires the unanimous agreement of the States and Territories



## Amendments To Division 7A

The government has announced a range of changes (from July 1, 2018) to simplify the Division 7A rules that prevent private companies from making tax-free distributions of profits to shareholders. The targeted amendments are designed to improve the operation and administration of Division 7A of the Tax Act and come as a result of a number of recommendations from the Board of Taxation's Post implementation Review into Division 7A.

The changes will provide clearer rules for taxpayers and assist in easing their compliance burden while maintaining the overall integrity and policy intent of Division 7A. The amendments will include:

- a self-correction mechanism for inadvertent breaches of Division 7A
- appropriate safe-harbour rules to provide certainty
- simplified Division 7A loan arrangements and
- a number of technical adjustments to improve the operation of Division 7A and provide increased certainty for taxpayers

All shareholder loan arrangements will be placed on 10-year loan terms although the government is yet to provide specific details.



## Youth Employment Package - Bonuses for Hiring Young People & Interns

As part of the Federal Government's Youth Employment Package, small and medium enterprises may be eligible for cash bonuses if they offer internships or hire young job seekers. The package is aimed at getting 120,000 vulnerable people under the age of 25 into work.

The bulk of the \$840.3 million funding (\$751.7 million) will go towards the Youth Jobs PATH program, which has three stages starting with the pre-employment skills training program that will give job seekers six weeks of training in areas such as IT, presentation, working in a team, job preparation and job hunting. This phase will begin in April 2017.

The second stage is a voluntary internship program, also beginning in April 2017, which will see businesses receive an upfront payment of \$1,000 to host an intern for between four and 12 weeks. Up to 30,000 placements will be supported each year, with the intern to receive payments of \$200 a fortnight in addition to existing income support payments.

The third stage of the program, which will commence from January 2017, is a Youth Bonus wage subsidy that will give employers between \$6,500 and \$10,000 if they hire an eligible job seeker. As part of the final stage, existing wage subsidies available to employers that hire youth, parents, indigenous and mature-age workers and the long-term unemployed will be 'streamlined'.



## Claiming Work Related Travel Expenses

In last year's (2015/16) Federal Budget the Government announced substantial changes to the way you can claim tax deductions for the business use of a motor vehicle. There were four methods for calculating work related expense claims made for the 2014/15 tax year :

- cents per kilometre
- 12 per cent of original value
- one-third of actual expenses
- logbook

As from the 1<sup>st</sup> July 2015 motor vehicle expense claims are limited to:

- the 12 per cent of original value of the vehicle method and the one third of actual expenses incurred method will no longer be available (these two methods were used when more than 5,000 km are driven annually for work purposes. Only around 3% of total deductions were claimed using these two methods)
- the three existing rates for claims per kilometre (which were based on engine size) have been replaced with one rate of 66 cents per km. This rate may be updated by the Commissioner of Taxation from time to time but remains the rate for the 2016/17 tax year.



## SuperStream Deadline 30th June

SuperStream is a government reform designed to improve the efficiency of the superannuation system. All employers, irrespective of the number of employees you have, must be compliant with SuperStream legislation by the 30<sup>th</sup> June 2016.

To use SuperStream, you need to send the superannuation payment and employee information electronically. Each superannuation fund has a USI (Unique Superannuation Identifier) and employers will need to collect and maintain this information for each super fund. Employers need to consider where they currently collect and store superannuation data for employees (forms, spreadsheets, databases and payroll systems) and ensure that they are now able to store USI information and Tax File Numbers for each employee as the USI and TFN will become the primary identifiers for SuperStream purposes.

To transmit the data and payment you can use a complying payroll system, your super fund's online system, a super clearing house, or a messaging portal. A list of certified providers is available on the ATO website.

Please note that superannuation obligations are only met when the payment is received by the super fund, not necessarily when it is received by the super clearing house (unless it is an approved clearing house such as the ATO's Small Business Superannuation Clearing House).

SMSFs need to obtain an Electronic Service Address (ESA). SMSFs must register for SuperStream unless the SMSF does not receive any Employer Contributions, is in Full Pension Fund or only receives contributions from related party employers. The register of SMSF messaging providers is on the ATO website. If you have an employee who is a member of a SMSF, they must provide the ABN of the SMSF, its bank account details, and an electronic service address (ESA).

Compliance is important and if you have any queries in relation to your SuperStream obligations please don't hesitate to contact our office.



## What Are The Acres Of Diamonds In Your Business?

Here's a story with a message for all business owners titled, Acres of Diamonds.

The story is based on the true story of an African farmer in the late 1800's who heard tales about other farmers who had made millions by discovering diamond mines. Diamonds were already discovered in abundance on the African continent and the gems were attracting huge prices which inspired the toiling farmer to sell his farm and go prospecting for diamonds.

After he sold his farm he spent the rest of his life wandering the African continent searching for those elusive diamonds. Unfortunately, he had no success and ended up penniless and sadly out of despondency, threw himself into a river and drowned. Meanwhile, the man who bought his farm happened to be crossing a small stream on the property one day and a bright flash of blue and red light caught his eye from the bottom of the stream. He bent down and picked up the stone that was about the size of a hen's egg. He took it home and put it on his mantelpiece because of its features.

Well ... Several weeks later a visitor to his farm noticed the stone and had a close look at it and nearly fainted. He asked the farmer if he knew what he had found. When the farmer said, no, he thought it was just a piece of crystal, the visitor told him he had found one of the largest diamonds ever discovered. The farmer had trouble believing it because he told the man that his creek was full of such stones, not all as large as the one on the mantel, but sprinkled generously throughout the creek bottom.

The farm turned out to be the Kimberley Diamond Mine, the richest diamond mine the world has ever known. The Kimberley Diamond mine has produced some of the world's finest diamonds, with the largest stone cut to 45 carats! Ironically, the original farmer was literally standing on 'Acres of Diamonds' until he sold his farm.



## What Are The Acres Of Diamonds In Your Business? (Continued)

So, how does this relate to your business?

Well, many business owners are sitting on their own 'Acres Of Diamonds' but don't know how to mine them. Of course, these diamonds are your existing customers and too often we see business owners chasing new customers at the expense of their existing customers. This is despite the fact that research from Bain & Company tells us it can cost up to 6 times more to win a new customer than it does to have an existing customer come back and buy from you again. Remember, you have invested time and money to acquire that customer for the first sale but every additional sale involves minimal if any cost. The research also indicates that repeat purchasers spend more and generate larger transactions.



### THE LIFETIME VALUE OF A CUSTOMER

Let's face it, most business owners focus their marketing, advertisements and offers on winning new customers. Ironically, after doing the hard work and winning the customer they often ignore them by failing to cross-sell or up-sell which can increase the average order value of each sale. Basically, they don't understand a very important concept called the 'lifetime value of a customer'. Basically it's a simple way of calculating the net profit your business will make from any given customer. It is an important metric for determining how much money a business should spend on acquiring new customers.

It's a simple formula:

***Average Order Value x Number of Repeat Sales Per Annum x Average Retention Time x Profit Margin Per Transaction.***

So, if you're a hairdresser and your clients on average spend \$100 on a haircut and they come to you 8 times per annum and you keep them as a customer for 3 years (on average) and the profit margin is 50%, then the lifetime value of a customer is  $\$100 \times 8 \times 3 \times 50\% = \$1200$ . If you run a coffee shop and your customers on average spend \$5.50 on each transaction and they come to you three times a week for 40 weeks of the year and you keep them as customers for 4 years (on average) and your profit margin is 75%, then the lifetime value of a customer is  $\$5.50 \times 3 \times 40 \times 4 \times 75\% = \$1,980$ .

There are a number of morals to this story. Firstly, you need to know what the lifetime value of a customer is to your business and how you can retain them for longer. Secondly, don't ignore your existing customers because in many cases they're really the most valuable asset of your business.

To further illustrate this point we know a lot of carpenters, electricians and plumbers who continually chase new customers. They forget to build their database of customers and hope their existing customers will remember them next time they need their trade services. Unfortunately, consumer behaviour has changed and courtesy of Google and smart phones the fridge magnet you gave a customer 4 years ago is not going to 'stick' in this digital age. You need to enter the customer's details into a database and then send them a regular newsletter or service reminder notice. Given you probably emailed them the quote or invoice for the original job, you already have their contact information. These people have bought from you before, hopefully had a positive experience and simply need to be nurtured so they come back and buy again. It's just bad business to ignore an existing source of revenue that's right under your nose and your simple communication is designed to keep your business top of mind.



There's a final moral to this story. A lot of trade type businesses 'die' when the tradie finally hangs up their tools and retires. After decades of hard work they don't sell their business. Without an up to date customer database they really have nothing to sell. On the other hand, if you have a database of customers and you regularly communicate with them, then you definitely have a saleable asset. Even better, if you identify your best customers who keep coming back and giving you referrals, then you can tailor your marketing to them and ultimately get paid for your 'acres of diamonds'.

## Starting a Business - Do the Numbers Stack Up?

You need more than just a great idea, loads of enthusiasm and technical skill to create a viable business. While each of these ingredients certainly help, they don't guarantee success in business.



That 'light bulb' moment and idea for your new business is exciting but it's only the beginning of the journey for an entrepreneur. You need to do your homework and identify all the costs you will incur before you open the doors. You need to project your revenue for the first three to six months of trading so you can calculate how much money you need to borrow and then source the loans. What type of finance do you need: a principal and interest loan, an interest only loan, a line of credit or a bank overdraft?

You also need to establish your pricing and calculate your break-even point. In other words, how many sales do you need to make every day to cover your running costs? Next, by preparing profit and loss projections you can assess if the risk will pay off. There's no point resigning from your secure job as an employee to work an extra twenty hours a week if your projections suggest you're earnings are going to drop in half. Most people start a business for a better lifestyle and more income, not the reverse.

The financial aspects of starting a business can be broken down into four steps and it starts by calculating the set-up costs and putting together a business plan to secure the funding. Obviously it's going to cost more to set up a retail shop and buy all the stock compared to setting up a lawn mowing or online business that might simply require a few thousand dollars of equipment and a website. To help you we provide you with the following guidelines:-

### Step 1 Estimate Your Start-Up Expenses

These might include professional fees like accounting fees for advice and the establishment of your business structure. You also need to factor in graphic design costs for your logo, brochures and stationery. There will be website design and construction costs and don't forget the IT costs for a computer and internet connection. The list can be deep but it's important to not overlook the major items which could be furniture, fittings, computers and equipment.

If you plan to lease a commercial property you should factor in legal fees to review the lease. You'll also need to pay a tenancy bond which could amount to several months' rent and you'll also need to pre-pay the first month's rent in advance. There could be connection fees and pre-paid line rentals for the phone line plus costs associated with the connection of utilities. Depending on the type of business you are setting up you might also need to make capital improvements to the building. For example, a coin laundry may need plumbing work or a café may need work on the walls, flooring and toilets. Be warned, some of these items may not be fully tax deductible in the year of purchase.



Finally, don't ignore the initial outlay on inventory. If you sell on credit you might make plenty of sales in the first month but if you don't get paid for several months you will need sufficient funds to survive this trading period. Working capital gives you a buffer and lets you pay all your costs in the early phase of operation like staff wages, rent, phone, power, insurances and superannuation. Once you identify your costs during this phase you can then establish your finance requirements and what is the best form of funding - a loan, line of credit or bank overdraft.

### Step 2 Establish Your List of Needs

Before you can open your doors you need to plot and plan all the products and services you need to commence trading. There are seven key categories including:

1. Cost of Sales - raw materials, stock, freight etc.
2. Professional Fees - accounting, legal, architect, copyright, trademarks etc.
3. Technology Costs - computer, internet, software, domain names, smart phone etc.
4. Administration Costs - stationery, printing, insurances, licences and permits, registrations, vehicle costs, utility



## Starting a Business - Do the Numbers Stack Up? (Continued)

connection fees and bonds, training etc.

5. Staff Costs - wages, superannuation, agreements, WorkCover insurance, uniforms, training etc.
6. Equipment & Capital Costs – shop or office fit out, furniture, fittings, equipment, cash register, point of sale, scanners, vehicles, trailer, franchise fee, business purchase etc.
7. Marketing - market research, branding, graphic design, signage, website, Adwords campaigns etc.

You need to list all the costs you will incur up until the business becomes self-supporting. Depending on the type of business this could take three to six months so your calculations need to extend beyond the day you launch. A lawn mowing contractor can be earning money day one while a retail shop can take months to generate sufficient sales to cover their operating costs. Remember, Google can take 3 to 6 months to index your website content so you could be invisible online for that period so don't expect your website to trigger a rush day one.



A lot of businesses collapse in this phase simply because their expense calculations stop the day they open the doors. Your sales probably won't go from zero to \$10,000 day one so you can't ignore the fact that your outgoings will exceed your revenue during this 'settling' phase. Your calculations need to include these initial losses otherwise you are at risk of running out of money before you find your feet. A cash flow budget is a very important tool that lets you identify how much money you will need and lets you go to the bank well in advance of a cash flow crisis.

### Step 3 Calculate Your Forecast Revenue

To project your sales you first need to establish your prices. Research your competitor's prices then look at your costs to determine what price you can sell your products or services for in the market place. Estimate how many products/services you can sell each day and try to be as realistic as possible. Based on your figures we can help you do some financial modelling so you know your best and worst case cash flow scenarios. Experience tells us that the figures provided by the new business entrepreneur are often massively over stated. We play 'devil's advocate' and work off sales that are usually around one third of their forecasts.

### Step 4 Analyse Your Projected Start-Up & Operating Costs

When that's all done it's time to step back and review your revenue projections and start-up costs. Have a look at the assumptions you made and make sure they are sound. Over estimating sales or under estimating costs can change the entire picture and you could run out of funding very quickly. What if your revenue only reaches one third of your forecast in the first 6 months? What will that do to your cash flows and when will you run out of money? Banks don't respond well to business owners knocking on their door when you are a week away from running out of cash.

If the figures suggest your business can survive and support your lifestyle it could be time to launch into action. On the other hand, if the numbers don't stack up then consider revising your plans. Could you push your prices up, could you buy the stock or raw materials at a cheaper price, could you buy a smaller quantity to start up, could you lease a smaller and cheaper premises?

Probably the biggest questions are, do the numbers support the risk you are taking and will you get funding? If you're looking to start a business we urge you to consult with us regarding the process. We can help you to identify your start-up costs, assist you with some price modelling and help you put a business plan and cash flow budget together.





# 2016 Tax Return Client Checklist

June 2016

## 2016 - Individual Tax Returns

### Income

- ☐ Gross salary, wages, allowances, benefits, earnings, tips, Directors Fees and Insurance for lost wages.
- ☐ Income from business activities.
- ☐ PAYG Payment Summaries.
- ☐ Details of any non-cash benefits received including discount(s) on employee shares or rights.
- ☐ Lump sum and termination payments. All documentation should be provided including an ETP Payment Summary from the employer or fund.
- ☐ Government Social Security payments, including pensions, unemployment and sickness benefits.
- ☐ Details of any CGT asset sales (e.g. shares, business and real estate). Please include dates of, and costs associated with, acquisition and disposal (You can save tax if you qualify for the variety of CGT concessions).
- ☐ Annuities, including allocated pensions or superannuation income streams.
- ☐ Income from trusts and partnerships. Statements of distribution should be provided where appropriate.
- ☐ Rental income.
- ☐ Interest and dividends received from any source including life insurance or friendly society bonuses and any tax deducted. Include details of franked dividends (i.e. imputation credits).
- ☐ Foreign source (employment and pension) income and details of any foreign tax credits.

### Deductions

- ☐ Investment and property expenses (carefully detail interest and repair claims).
- ☐ Subscriptions (not including sporting or social clubs).
- ☐ Employment related expenditure such as self-education, protective clothing, tools, uniform and laundry expenses.
- ☐ Motor vehicle expenses (include petrol, repairs, parking and maintain a Motor Vehicle Log Book where necessary).
- ☐ Donations of \$2 and over.
- ☐ Income Protection Insurance Premiums.
- ☐ For Self-Employed persons, details of any Superannuation Contributions made.
- ☐ Home office expenses where employment requires use of your computer, phone or other device.
- ☐ Tax Agent Fees and other accounting/tax audit fees.
- ☐ Special deductions (Australian films, investment shelters and agribusiness-type schemes).
- ☐ Bank fees (where the credit or deposit represents assessable income).
- ☐ Unrecouped prior year losses.

### New Clients

- ☐ Last year's Notice of Assessment and Tax Return (if available)

### Rebates

- ☐ Private health insurance annual statement.
- ☐ Details of superannuation contributions where no tax deduction can be claimed.
- ☐ Any changes in dependants, children's details, DOB and any Centrelink benefits applicable (income of spouse should also be provided).
- ☐ Details of any income received in a lump sum which was accrued in earlier income years (e.g. assessable pensions).
- ☐ Details of any remote work performed for 183 days or more.
- ☐ Note: The net family medical expenses tax offset is being phased out and for 2015/16, medical expenses can only be claimed if related to disability aids, attendant care or aged care.
- ☐ HECS Debt details.

### 8 Most Common Errors in Income Tax Returns

1. Omitting Interest Income
2. Incorrect or Omitted Dividend Imputation Credits
3. Capital Gains/Losses are Incorrect or Omitted
4. Understating Income
5. Home Office Expenses
6. Depreciation on Rental Property Fixtures and Fittings
7. Depreciation on Income Producing Buildings
8. Borrowing Costs associated with Negative Gearing

# 2016 - Companies, Partnerships, Trusts and Other Businesses

## Income

- ☐ Trading Income.
- ☐ Other Income (e.g. Rent, Interest, Royalties).
- ☐ Stock on Hand at June 30, 2016 (and basis of valuation) – note any obsolete stock.
- ☐ Work-in-Progress at June 30, 2016
- ☐ Primary Producer subsidies (if assessable).
- ☐ Details of CGT assets (e.g. shares and real estate) sold, including dates of, and costs associated with acquisition and disposal.
- ☐ Dividends, including details of franking credits.
- ☐ Income from foreign sources including details of any foreign taxes paid.

## Deductions

- ☐ Repairs and maintenance.
- ☐ Salaries, including fringe benefits.
- ☐ Fringe benefits tax paid.
- ☐ Rates, land taxes and insurance premiums.
- ☐ Advertising expenses.
- ☐ Interest on borrowed monies.
- ☐ Deductions relating to foreign-source income.
- ☐ Prepaid expenses (subject to transitional rules).
- ☐ Retirement payments and golden handshakes.
- ☐ Bad debts actually written off during the year.
- ☐ Donations of \$2 and over depending on the recipient.
- ☐ Commissions.
- ☐ Legal expenses.
- ☐ Lease or Chattel Mortgage payments on motor vehicles and equipment.
- ☐ Losses of previous years (or intra-group transfers).

- ☐ Superannuation contributions.
- ☐ Subscriptions.
- ☐ Car expenses (remember to include petrol, repairs and parking and maintain a log book where necessary).
- ☐ Tax agent's fees and other accounting and tax audit fees.
- ☐ Royalties paid.
- ☐ Details of the destination and purpose of any interstate or overseas trip. Expenses must be fully documented where travel involves at least one night away from home. Travel diaries should be included where travel exceeds five nights.
- ☐ Research and development expenditure.
- ☐ Bank fees (where the credit or deposit represents assessable income).

## Liabilities

- ☐ New loans taken out during the year and their purpose, including any new lease or chattel mortgage agreements on vehicles, equipment or machinery.
- ☐ Statements from the lending authority detailing the opening and closing balances of existing loans during the financial year.
- ☐ Provisions for long service and annual leave.
- ☐ Creditors at June 30, 2016.
- ☐ Details of loan accounts to directors, shareholders, beneficiaries and partners.
- ☐ Accrued expenses (e.g. audit fees, interest payments).
- ☐ Commercial debts forgiven.

## Assets

- ☐ Details of depreciable assets acquired and/or disposed of during this income year, including:
  - type of asset;
  - date of acquisition;
  - consideration received/paid.
- ☐ Lease commitments.
- ☐ Debtors at June 30, 2016.
- ☐ Commercial debts forgiven.

## Additional Information Required

- ☐ Franking account details/movements.
- ☐ Overseas transactions, exchange gains/losses.
- ☐ Private companies – remuneration or loans to directors, shareholders and their relatives.
- ☐ Changes to the capital of the company.
- ☐ Whether family trust elections have been made in relation to trusts.

**Note:** To ensure that you obtain the maximum deductions to which you are entitled and in consideration of the penalty provisions, FULL DETAILS of any claim should be provided and supporting documentation made available. For employee taxpayers and for travel and motor vehicle claims by self-employed taxpayers, documentation must be a receipt, tax invoice or similar document which contains certain details. For other taxpayers, documentation may comprise receipts, dockets, diary notations or reasonable and supporting estimates.

**IMPORTANT DISCLAIMER:** This newsletter does not constitute advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly and we therefore recommend that our formal advice be sought before acting in any of these areas. This newsletter is issued as a helpful guide to clients and for their private information. It should be regarded as confidential and not be made available to any person without our prior approval.