

Welcome to the first edition of Intacct for 2010. This publication offers some beneficial advice to assist you in your financial decision making. We have included an update on superannuation, guidelines to consider when investing in direct shares or property, as well as tips to drive your business forward during these challenging economic times. Lastly, we introduce you to another member of the team at Conrad Carlile.

## New income tests apply from 1 July 2009

From 1 July 2009, new laws came into effect which changed the income tests used by the Tax Office and other government agencies. These changes do not affect an individual's assessable or taxable income. However, they do affect the income tests for a range of benefits and obligations.

The income tests that will be affected include:

- Adjusted taxable income
- Rebate income
- Income test for mature age workers tax offset
- Income tests for superannuation benefits
- Income for Medicare and Medicare Levy Surcharge
- Income test for HELP loans and SFSS repayments

Each income test uses different income components and is used in different circumstances. Some of the government benefits that will be affected include the dependent spouse tax offset, senior Australian tax offset, pensioner tax offset, mature age workers tax offset, and government super co-contribution.

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## ATO looks at employers employing 'contractors'

When times are tough, businesses may be tempted to cut corners to stay afloat or maintain their cash flow. This is particularly relevant when it comes to employer obligations.

This can be through deliberate non-compliance by payment of cash wages and can also involve using an ABN to mask underlying employment relationships. It can enable employers to save costs in terms of workers compensation and payroll taxes. They can also negotiate pay rates outside of normal wages and conditions.

The ATO's strategy for tackling non-compliance in this area focuses on businesses that do not withhold from payments to workers as required and fail to make superannuation guarantee contributions.

The following case study looks at a case that is non-compliant with the current law.

### Case Study

A telemarketing business claims its several hundred workers are all independent contractors. They are required to quote an ABN. No tax is withheld as PAYG and superannuation guarantee is not paid.

Workers are contracted to perform the work at the premises of the business, using equipment, materials and information supplied by the business.

The telemarketers do not provide any assets and they have very limited control over how they perform their duties.

The telemarketers are not contracted to achieve a specific result or outcome by working on their own account or in their own business, but are contracted to work in and are integral to the business and are paid on an hourly basis.



## Superannuation Update

### Superannuation and reportable employer contributions

Under changes to tax law effective from 1 July 2009, employers must include Reportable Employer Superannuation Contributions (RESC) on payment summaries.

Payment summaries for the 2010 financial year and beyond will include a label to show Reportable Employer Superannuation Contributions.

With this change in legislation, individuals will be required to include Reportable Employer Superannuation Contributions on their personal tax return from the 2010 financial year. Reportable Employer Superannuation Contributions will be included in income tests for certain welfare payments, tax benefits and tax obligations.

#### Employers – we recommend you:

- Check with your payroll administrator that your system is complying with the tax law changes to identify and report RESC payments;
- Discuss these compliance issues with your payroll software provider;
- Issue payment summaries for the 2010 financial year where a RESC is made, even if an employee has not been paid a salary or wage;
- Notify your employees of the changes to their 2010 financial year payment summary and tax return lodgement obligations.

### Employer crackdown

The Australian Taxation Office is targeting several high-risk industries in a campaign to ensure employers pay compulsory superannuation contributions, after having to take action over more than 20,000 complaints from employees.

The ATO can issue a default assessment if an auditor decides an employer made insufficient contributions for an employee. The employer can't claim a tax deduction on these additional contributions and faces interest and administration charges.

### Excess contributions

Letters have been sent to taxpayers that the ATO considers most likely to breach the new, reduced superannuation contributions caps.

As of 1 July 2009, the concessional contributions cap was halved to \$25,000 for those under 50, and \$50,000 for those 50-plus.

As a result, the ATO recently conducted a mailout to 300,000 people it suspects may sail close to the limits, to specifically inform them of the change and help them make an informed decision about how much they'll contribute to super in the 2010 financial year.

## Business Advisory Division

### Being proactive will make a difference

The current economic climate suggests that positive sentiment and confidence have begun to return with anticipation of further improvements, backed by evidence of a stronger Australian economy.

Economic times may be looking more optimistic but there is more hard work required by governments, corporates and businesses to rectify wrongs of a number of years. We suggest our clients take a more pragmatic approach when considering their future and financial positions.

It is important to stay focused as good business fundamentals will find their reward by providing consistent ongoing profits and cashflows. We recommend that all businesses:

1. Create a cashflow forecast – it is a critical diagnostic tool for your business;
2. Ensure timely and accurate financial reports are prepared – this is the best way to identify emerging problems and provide management with the tools to rectify them;
3. Communicate with debtors – this helps activate slow payers and identify problems;
4. Check new customer credentials – credit assessments can eliminate potential risks;
5. Be disciplined – let unresponsive debtors know that you will not tolerate exceeding agreed terms;
6. Review short term business plans – ensure projections are sustainable and based on realistic assumptions;
7. Communicate with staff and major stakeholders – this assists in avoiding damaging and ill-informed gossip;
8. Be innovative – left field thinking in such times can often aid a business in battling markets;
9. Be open to change – being flexible and willing to embrace change can be critical to the survival of the business;
10. Be proactive rather than reactive.

It is vital that businesses have accurate and timely forecasts of sales, purchases, overheads, gross margins, net profit and cashflow in order to make good management decisions.

Critical decisions about the business' future, such as employment levels, salaries, sales, stock or inventory levels, debtors, creditors and overdraft requirements should be based on up-to-date financial information, not only based on instinct or gut feel. This will instill confidence in other key stakeholders as well, such as your bank.

Communication with advisors is essential when matters of concern arise. Being proactive during difficult times enables solutions to be considered and strategies worked through to achieve favourable outcomes for major stakeholders.

A simple solution may not always be easily achieved, however, communication with stakeholders cannot be underestimated. Often the stakeholders in a business have similar pressures, and by communicating and understanding these pressures, workable solutions with favourable outcomes can be achieved.

The team at Conrad Carlile is available to assist owners become more proactive in making assessments about their business and implementing any changes required.

## Investing in Direct Property versus Shares

Most Australians are comfortable with investing in property and believe it to be the best form of investment. The reason for property's popularity has much to do with human nature. We can see and feel it. It is the investment we know best and understand.

The following are some of the factors an investor should consider whether they already own a property or are considering buying one.

### Asset Allocation

The asset you invest your money into should meet your risk profile and long-term investment objectives. A typical property asset allocation for a balanced investor should be no more than 10-20% of your total investment portfolio. Example, for a maximum 20% allocation, a client with total funds of \$500,000 no more than \$100,000 should be in property.

### Diversification of Your Property

Diversification of your investment assists in managing specific asset risk. Owning one residential rental property misses the opportunity of gaining diversification.

Like equities property should be diversified into, commercial; industrial; and retail as well as residential. Property should also be diversified geographically; CBD vs fringe; States; and a specific location.



### Liquidity

Short Term cash shortfalls are a factor of everyday life. Shares are easily liquidated, generally in three days and at minimal cost. However, property can take anywhere from six to twelve months to sell. The costs of selling a property are substantial and a property must be sold in its entirety. A share portfolio can be sold in discreet bundles depending on how much cash is required.

### Volatility

A common misconception is that property prices are relatively stable. This is not true, like all investment markets property markets can and do also crash. During the late 1990s, some prime properties lost half their value over several months and unlisted property trusts were unable to meet redemption requests.

## Yield

The yield, in other words the rental income from residential property is low in comparison with high-yielding shares and fixed interest securities. Property investors must also bear the risk of not being able to immediately replace a tenant who has terminated a lease.

Overall, investors need to be particularly careful not to overexpose themselves to residential property. At retirement an investor's focus will dramatically shift from one of capital growth to income generation, and to meet your income needs, the best alternative may be to sell residential property and to shift assets into more liquid and higher yielding investments.

If you require any further information or assistance, please contact Tim Blakeley, Lighthouse Advice. Tim is an Authorised Representative of Professional Investment Services and he and his team will be able to provide you with financial planning advice to suit your present needs and future goals.



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## Team Profile



Tanya Toohey has been working as an accountant with Conrad Carlile for the past 1 ½ years, having previously worked for WA McGovern. Tanya graduated from the University of Southern Qld in 2007 with a Bachelor of Commerce (Accounting, Finance), and is currently studying to gain CPA qualification.

Tanya grew up in Far North Queensland before moving to Gatton nine years ago. She has since been kept busy working, studying and raising a young family. She enjoys meeting new people and always working to achieve the best results for the client.

The information in this newsletter is general commentary only and should not be considered advice. You should not act solely on the basis of the material contained in this newsletter. We recommend that you seek our formal advice prior to acting. Liability limited by a scheme approved under Professional Standards Legislation.