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FROM THE EDITOR

We have just returned from a visit to our schools and orphanage in India. As we travelled around the slums in the quarry districts of Bangalore – where Mum and Dad work in the quarries breaking up the rock and granite, earning a dollar a day; Dad planting explosives to break up the rock, with his babies and children next to him – it made us very grateful that we live in a country of such prosperity.

While in India we were privileged to open another school for kindergarten children, taking in 100 children from the quarry district. Our current school for primary and high school children has 600 pupils. The children attending our schools are all underprivileged, quarry children from the slums of Bangalore. We currently have 19 children now ready to go into university and college. It costs around A\$1000 per annum to put a child through university in India.

At this time of Christmas and in the spirit of giving, you may be moved to sponsor a child. In doing so you will be providing them with the opportunity of an education through school or university. Visit www.oya.com.au for more information. All donations are tax deductible.

We would like to wish all of our clients a very happy Christmas and a prosperous new year.

Claire Osborne

Managing Director



In this issue...

Money & Marriage
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Quote of the day...

'Never worry about the size of your Christmas tree. In the eyes of children, they are all 30 feet tall.'

~ Larry Wilde

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'TIL DEBT DO YOU PART?'

I don't expect newlyweds, William & Kate, will have too many financial concerns or a great need for budgeting. One of the main concerns for newlyweds though is money or a lack of it. It is important to start planning early, budget carefully and keep out of debt.

Don't start a marriage with a lot of debt. Heavy debt and money worries are a good way to break up a healthy relationship or marriage. Early on in the relationship, even before taking the vows if possible, concentrate on paying off any personal debts so that you can go into the marriage debt-free. If you have debts from the wedding, such as the ring, reception or credit cards, concentrate on paying them off ASAP. Then, as a couple, sit down and work out a budget and financial plan for yourselves.

Another big mistake couples can make is going into a mortgage which relies heavily on both incomes. A baby comes along and the couple is suddenly relying on one income only. Your first home does not have to be your dream home. Some couples decide to rent in their desired area knowing it is out of their reach to buy. They then buy an investment property in a regional or more economical area, at a price that is affordable and possibly positive or neutrally geared.

Remember you can build up gradually to your dream home – it does not have to be your first and last purchase.



The ABC's of GST

It's been 11 years since the Goods and Services Tax (GST) was introduced in Australia and, while the initial public panic has evaporated, debate continues over the fairness of the Howard Government's ambitious tax reform. So let's take a look at the basics of the GST.



Ryan Molloy
Accountant

The GST is a tax on both goods and services at the rate of 10%. It was introduced in July 2000 to replace a range of inefficient state taxes and broaden the existing wholesale sales tax system, which gave unfair tax advantage to suppliers of services.

Everyone in Australia is subject to GST – even churches and charities. There are only two legitimate ways to completely avoid it. One is not to buy anything and the other is to move overseas.

There are some goods and services that are GST-free. They include many basic foodstuffs, medical and educational services, disability services, some services provided by religious institutions and charities, transport, precious metals, duty-free items and grants of freehold land. Other items, such as financial services and rental of residential premises, are exempt from GST because they are input-taxed – which means that no GST is applied to the selling price, however, the supplier of the input-taxed good or service is not entitled to claim back any GST (as an input-tax credit) on anything acquired to produce it. A private sale by an unregistered individual to another unregistered individual also escapes GST.

Whether you like it or hate it, GST is here to stay. It is highly unlikely any new government coming into power will reverse it. Once major reforms like this are introduced they usually prove too difficult to roll back.

Individuals and the GST

As an individual and a consumer you bear the brunt of GST. Most services you use, such as electricity and plumbing services, and most of the goods you consume, will be subject to the 10%.

However, it is not a universal system. Some goods and services are exempt from the tax, others are not. This makes the system pretty darn complicated.

Say you decide to join a gym. You pay your fees, which attract GST. After your workout you decide to buy a mineral water, which doesn't attract GST, and a muesli bar, which does attract GST.

Food is generally exempt from GST. Exceptions include processed and prepared food. So when you eat out at your favourite restaurant or grab takeaway from your local fast food haunt GST applies.

Residential property

In general residential property is input-taxed. The private sale of your family home is not subject to GST. As such any GST you have paid on the purchase, renovation or repair of the home will have to be absorbed by you the individual. When you use a real estate agent to sell your family home, the agent will charge GST on the fees for selling the property. Legal fees will also be subject to GST on the sale of the house.

If you buy a new block of land from a developer he will charge you GST and if you then build a new home on that block of land the builder will charge you GST. This is because both the builder and developer must be registered for GST, as they are carrying out that activity as part of their business. Repairs or renovation to your home will also be subject to GST.

When renting, tenants will not pay GST on rent, but owners cannot claim input credits for repairs or maintenance.

Education

While school fees for preschool, primary and secondary school are not subject to GST, many additional educational costs do attract GST. School uniforms, sports uniforms, text books and stationery items such as exercise books are all good examples. Music lessons that are not part of the school curriculum are also subject to GST.

When it comes to university and TAFE fees, educational courses are GST exempt, while recreational courses are not. Student union fees and other student association membership fees do attract GST.

A university residential college is input-taxed and therefore does not charge GST on accommodation. However, where boarding fees relate to the supply of food, GST applies.

Asset Protection

FOR BUSINESS OWNERS

In our increasingly litigious world, asset protection is an issue business owners should think carefully about. Lawsuits can strip a business of its hard-earned assets and funds in the blink of an eye.

Yes, most of us would agree that litigation has been taken too far, but it's a reality of modern life – and it is for that reason we must protect our assets in business, whether we are a tradesperson, business consultant or medical specialist.

It is particularly sensible to protect yourself from litigation if you are in an industry prone to legal action. We have all heard the extreme cases. There was the customer who spilt boiling coffee over themselves and sued McDonalds. And the guy who bought the Winnebago mobile home and left the wheel to make himself a coffee because he had been told that the van was automatic. After crashing the vehicle he successfully sued the company because it had not clearly specified what the word 'automatic' meant. Of course, these are extraordinary cases; litigation these days is usually more simple.

Asset protection is about using business structures to create barriers between your assets and the risks faced by your business, or even by yourself personally. There are various methods of protection and an experienced professional can advise you on these structures. Let's look at a couple.

Companies and trusts are two commonly used structures, with distinct differences.

Trust Structure: A trust is a relationship whereby property or funds are administered (by a trustee) for the benefit of others (the beneficiaries). Nobody owns the trust, it is simply controlled. The trustee has legal ownership of the trust property and a duty to always act in the interests of the beneficiaries. Beneficiaries are entitled to distributions from the trust, but have no legal entitlement to the trust. As a result, the beneficiaries are generally not liable for the debts and liabilities of the trust.

A Company: A company is a separate legal entity, which is distinct from its members, directors and other individuals connected to the company. It offers asset protection benefits because the owner's assets are separate from the company's assets (although individual directors can be personally liable for negligent or fraudulent activities conducted by the company).

The best time to put asset protection in place is right from the beginning, before you buy your home or asset. Transferring

assets into a trust later on can be a costly exercise because it is treated in the same way as selling the asset. The process generates Stamp Duty and possible Capital Gains Tax costs.

If you are weighing up the costs of transferring assets into a trust for protection you can reduce the cost initially by considering Equity Transfer of your assets – the transfer of part or all of your equity in property to or from a third party. The aim here is to protect your equity or your net worth – the part of the asset you own.

Another method of protecting assets is through a contractual will. Parents draw up a will which specifies that all of their properties and assets are to be passed onto their children when they die. The contract is set up within a trust, the trust having rights and obligations in regard to the assets. The trust has priority over creditors and those who would pay to take the properties and assets through litigation.

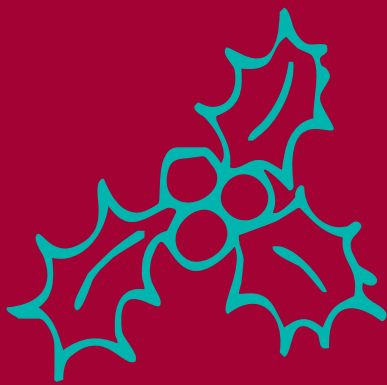
It is too late to protect your assets when you are about to be sued or in the middle of a court case. Transferring assets to a trust must be justifiable. Trying to transfer assets because of a litigation case would not be deemed justifiable and a court would reverse the action you have taken.

Let's face it – we live in a world of litigation. Lawyers are having a field day and it pays to protect your assets, even if there is a cost involved. As always, seek professional advice before establishing any type of trust structure.



News Flash: Did you know? You can now update your contact details, including address, phone number and email, online?

Visit us at www.oya.com.au



Our offices will close for Christmas and the New Year on December 24 and re-open on January 9, 2012.

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FRINGE BENEFITS TAX

A SNAPSHOT VIEW



Brett Townsend

says: Fringe benefits are those non-cash benefits and privileges provided by employers to their employees or their employees'

associates (typically family members) in place of salary or wages. Things like a work car for private use, a cheap loan, free private health insurance and home cleaning services. These perks have the power to attract and retain good employees and make work a satisfying place to be. But they're not immune from the tax-man.

In 1986 the Hawke Government introduced a tax on fringe benefits – the FBT. The aim was to crack down on lucrative tax-free perks being offered to business executives. The upside of FBT for employees is that their income tax liability is based only on that part of their salary left after deducting the value of the benefit. The FBT is a tax on the employer only, incurred on the value of fringe benefits a company has provided to an employee in respect of their employment.

It's important to have a good understanding of the FBT. So let's take a closer look.

The Basics: The FBT only applies to salary perks received by an employee of more than \$1000. Those of more than \$1000 must be reflected on an employee's annual group certificate. The FBT year runs from April 1 to March 31, so employers need to report any fringe benefit amounts to the tax office on an annual return due in March each year.

Employees include company directors and family members: Remember the FBT applies to the private use that employees make of company assets or funds. The term 'employees' includes company directors and family members. If you're a business owner, any private use you make of your company's assets, including using cash from your business, is subject to FBT.

What about sole traders and partnerships? Individuals who are in business as sole traders or in partnerships are not employees of their business and are therefore not subject to FBT.

FBT exemptions: A number of benefits are exempt from FBT under FBT legislation. Items such as laptops, portable printers,

electronic diaries, protective clothing and tools of trade are just a few examples. Superannuation is also FBT exempt, even if your employer decides to pay you additional super above the mandatory guarantee amount. If an employee purchases an item that is tax deductible under the taxation net there is no FBT on that item.

SOME GREY AREAS WITH FBT

Computers – Your employer buys you a computer for private use, a fringe benefit arises and ownership passes to the employee. As an employee you can claim a deduction against your income for business use of the asset. This is in contrast to an employee being given access to the use of a computer for work purposes only.

Parking – Individual parking less than \$100 per year provided to you as an employee is exempt, as it is work related parking.

Client meals – Say you want to take your clients out to a meal. Under the income tax rules, meals for clients are not an allowable deduction. However, under FBT rules you can deduct 50% from the meal cost, meaning that only half of your total expenditure is subject to FBT and is tax deductible.

Christmas events – Your boss wants to treat you to a Christmas lunch without incurring a fringe benefit. Provided he does not spend over \$50 he can also claim a tax deduction for the Christmas lunch.

Other Expenses – Many expenses that are paid on your behalf as an employee – school fees, club memberships, rent, living away from home allowances, loans granted on a debt waived, private medical fees etc – are subject to FBT. Union fees or professional association fees paid by the company to an employee are not subject to FBT provided that, if paid by the employee directly, they claim the amount on their personal tax return as a work related deduction. This would also apply to work boots and tools of the trade.

Motor Vehicles – As an employee, if you receive a company vehicle and use it for private purposes then you must account for it under FBT rules. Recently the government announced changes to the statutory formula method for calculating FBT on car fringe benefits. A flat statutory rate of 20% will apply, regardless of the kilometres travelled. The new rate applies to new vehicle contracts entered into after May 10, 2011.

Seek advice from a qualified accountant.