

Vlahos Co

Chartered Accountants
Business & Taxation Advisors

Director
Steve Vlahos BEc (Syd), MTax (UTS), FCA, FTIA

Suite 1
170 Parramatta Road
Stanmore NSW 2048
Ph: (02) 9518 3025
Fax: (02) 9518 3125

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Re: Year End Tax Planning Guide

As you aware that the end of the financial year fast approaching, Vlahos & Co offers this summary highlighting some key issues to assist with your June 2011 year-end tax planning.

This guide contains information that is intended to be of a general nature only and does not take into account your specific needs or circumstances. Some of the following considerations may require prompt action in order to meet the 30 June deadline.

We would be more than pleased to advise you in relation to your 2011 tax planning. Please contact our office to arrange a meeting immediately.

Kind regards


Steve
encl.



**Chartered
Accountants**

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2011 YEAR END TAX PLANNING GUIDE – AN OVERVIEW

DEFERRING INCOME

Defer receipt or derivation of income (to the extent possible) after 30 June 2011.

- Defer the receipt income from interest, dividends, rent, royalties or insurance proceeds etc.
- Defer to issuing of an invoice (if practical) after 30 June 2011.
- Defer the disposal of a Capital Asset post 1 July 2011.

ACCELERATE DEDUCTIONS

Bringing forward recognition of liabilities, future or proposed business expenditure before 30 June 2011.

- Ensure that Superannuation contributions are paid before 30 June 2011.
- Ensure that employee bonus obligations are incurred before 30 June 2011.
- Consider placement of orders pre year end to receive eligibility for deduction pre year end.
- Write off of obsolete stock as at 30 June 2010.

PREPAYMENTS

Advanced deductions for prepayments in certain situations can only be claimed where either of the following conditions are met:

- Asset cost less than \$1,000 (GST exclusive)
- Prepayment required to be made by law; and
- Under a contract of service, (i.e. salary and wages).

Where the prepayment does not meet one of the exceptions above, the deduction will need to be apportioned on a day basis over the eligible service period.

SUPERANNUATION – CONCESSIONAL CONTRIBUTIONS

For the year ending 30 June 2011, the maximum superannuation contributions that can be claimed by employers on behalf of their employees is:

Employee below 50 years of age at 30 June 2011	\$25,000
Employee aged 50 and over at 30 June 2011	\$50,000

As a result of the 2011/12 Federal Government Budget, the above threshold will change from 1 July 2012.

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These limits apply to contributions from all sources and include:

- 9% superannuation guarantee
- all salary sacrifice contributions
- super guarantee paid on bonuses
- life insurance paid by an employer

The cap is per person so the limit applies across all employers and all superannuation funds.

Salary Sacrifice

Salary sacrifice contributions and the 9% compulsory superannuation guarantee both count towards the annual concessional contribution cap. Individuals salary sacrificing into superannuation need to ensure their sacrificed amount together with their employer's 9% contribution do not make them breach the cap. When a bonus is paid by an employer the superannuation guarantee on the bonus also counts towards the concessional contributions cap. It is the employee's responsibility to ensure their cap is not breached.

Deductions for Personal Concessional Contributions

Individuals who are self-employed or substantially retired, may be eligible for a tax deduction in respect of personal contributions. They must pass the 10% rule. The 10% rule requires that less than 10% of their total income is connected to employment. Since 1 July 2009, this includes salary sacrifice contributions, which are shown as reportable superannuation benefits. If you fail the 10% rule, the contribution will count towards the non-concessional cap.

Superannuation Guarantee Contributions

Employers must pay the 9% superannuation guarantee on a quarterly basis. For superannuation contributions to be deductible this financial year, they must be paid before 30 June 2011. An employer is not required to pay superannuation guarantee in excess of the 'maximum contributions base'. The maximum contributions base is \$42,220 per quarter for the 2010/11 year.

Non-Concessional Contributions

The non-concessional (post-tax) contribution cap is \$150,000 per annum. Individuals under age 65 may contribute up to \$450,000 by bringing forward up to two years' worth of contributions. The bring forward rule is triggered during the first year you exceed the \$150,000 cap.

Contribution of Assets

Individuals wishing to maximise contributions but who do not have cash available, can also contribute assets such as listed shares, listed managed funds and business real property to a self managed superannuation fund (SMSF).

Excess contributions

If you exceed the contribution caps, you will be liable to pay excess contributions tax, which is calculated as follows:

Contribution Type	Excess Contributions Tax
Concessional	31.5%, in addition to the 15% paid by the fund. Can be paid by the fund.
Non-Concessional	46.50% Must be paid by the fund.

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Excess concessional contributions count towards the non-concessional contributions cap. Therefore if you have exceeded the concessional cap and made the maximum amount of non-concessional contributions, this can result in the amount being taxed at 93%.

The ATO have allowed a concession for first time offenders if they exceed the concessional cap by less than \$10,000. This is not effective until 1 July 2011.

Co-contribution

Non-concessional contributions of up to \$1,000 will be matched by the Government with a co-contribution of up to \$1,000 for people earning less than \$61,920. The maximum payment of \$1,000 is received when your income is under \$31,920. The co-contribution phases out once your income is \$61,920. To be eligible for the co-contributions you need to be employed or self-employed.

Spouse contributions

A tax offset of up to \$540 is available where a spouse contribution of up to \$3,000 is made. In order to receive the full offset, a \$3,000 non-concessional contribution must be made on behalf of a spouse and the spouse's taxable income must be less than \$10,800. No offset is available where the spouse's taxable income is over \$13,800. The \$3,000 counts towards the non-concessional limit of the receiving spouse.

DIRECTOR BONUSES

Director bonus accrued in prior year must be brought to account in Director's personal tax return in 2011. The employer must withhold tax for such bonuses and include this information in the June 2011 BAS return.

TRADING STOCK

Trading stock on hand as at 30 June 2011 can be valued, on an item-by-item basis, either at cost, replacement value or market-selling value. The valuation of trading stock under the replacement value or market-selling value method can result in an increase in taxable income for the year of valuation where these values exceed cost. **Please ensure that you undertake a stocktake BY 30 JUNE 2011.**

Obsolete stock can be valued at a lower value if it can be shown that there is no prospect of future sales. A nil valuation is acceptable if the stock is to be dumped and destroyed within a reasonable time after the year-end. Alternatively, stock of no value should be scrapped. Your taxable income could be reduced by reducing the value of your closing stock on hand.

BAD DEBTS

Bad debts must be written off as bad and irrecoverable before year-end in order to claim a tax write off. It is sufficient that some form of written record is kept to evidence the decision of the taxpayer to write off the debt from the accounts prior to 30 JUNE 2011.

LOANS BY COMPANIES TO SHAREHOLDERS & ASSOCIATES

Loans made by companies to shareholders or associates which are outstanding as at 30 June 2011 may be deemed by the Tax Office to be a dividend or a fringe benefit. To avoid deemed dividend or Fringe Benefit Tax implications, you must consider the following options:-

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1. Repay the loan before year end, possibly by declaring a dividend, or
2. The company/entity enters into a formal loan agreement with the borrower. The loan must be repaid progressively with interest over the next seven years for unsecured loans. We can assist in ensuring you have an appropriate loan agreement in place.

Ensure that the required repayments for existing loan agreements have been made by 30 June 2011.

INVESTMENT TRUST DISTRIBUTIONS

Administration of a discretionary trust estate should see the Trustee attending to a number of housekeeping and planning matters by 30 June 2011. Please call our office to address the relevant issues.

CAPITAL GAINS TAX (“CGT”)

Defer if practical, until after 30 June 2011, the sale of an asset which will result in a capital gain. If the sale has been made consider realising a prior or current year capital loss in order to reduce the capital gain.

Consider other CGT minimisation strategies such as:

- Availability of small business and retirement concessions;
- Defer a disposal to ensure the asset has been held for at least 12 months. This will potentially allow individuals and trusts to benefit from the 50% discount concession;
- Review the cost base of an asset to ensure all expenditure associated with the acquisition and the disposal of the asset has been considered; and
- Consider where applicable, whether it is more beneficial to utilize the 50% discount or frozen indexation.

Refer to the attached CGT Checklist for further assistance on what disposals must be recorded for the year ended 30 June 2011.

UNPAID DISCRETIONARY TRUST DISTRIBUTION

Distribution in prior years to corporate beneficiaries but unpaid to date must be paid by 30 June 2011. Please contact our office to address this issue further to avoid the application of the “Deemed Dividend” provision of the Income Tax Assessment Act

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CAPITAL GAINS TAX CHECKLIST

The following questions will help determine possible capital gains tax (CGT) implications. A 'yes' response to any of these questions could indicate that CGT applies and should be investigated.

Some questions are intended to highlight the possibility of a capital gain or loss arising in the current year, others to alert users to the possibility of a CGT exposure in the future and the need to keep appropriate records. This list of questions is not exhaustive.

1. Real estate – current year CGT impacts

- | | | | |
|-----|---|------------|-----------|
| 1.1 | Have you sold or given away any real estate in the past financial year (including your main residence)? | Yes | No |
| 1.2 | Has there been a change to the title of real estate that you owned (or partially owned) at the start of the year? | Yes | No |
| 1.3 | Have you granted an option, conservation covenant or other right (for example, an easement over real estate) in the year? | Yes | No |
| 1.4 | Have you granted, changed or varied a lease over your real estate in the past year? | Yes | No |
| 1.5 | Has any building or capital improvement on your land been destroyed in the past year? | Yes | No |
| 1.6 | Did you receive compensation in the past year in respect of real estate you own? | Yes | No |
| 1.7 | In the past year, have you sold any rights you held in real estate - such as contractual rights relating to an off-the-plan purchase? | Yes | No |

2. Real estate – future year CGT impacts

- | | | | |
|-----|---|------------|-----------|
| 2.1 | Do you own real estate (including an inheritance) that is not your main residence (for example, land, investment property or holiday house)? | Yes | No |
| 2.2 | Do you own real estate that is your main residence and it is: | | |
| | <ul style="list-style-type: none">used as a place of business or to derive rent or has not been your main residence the whole time you owned it | Yes | No |
| | <ul style="list-style-type: none">situated on more than 2 hectares (4.94 acres) of | Yes | No |

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land, or

- | | | | |
|-----|--|------------|-----------|
| | <ul style="list-style-type: none">• a different home to your spouse or dependent child (under 18 years old)? | Yes | No |
| 2.3 | Have you made any capital improvements to any real estate that you own? | Yes | No |
| 2.4 | Have you subdivided or amalgamated any real estate that you own? | Yes | No |

3. Shares & investment units

- | | | | |
|-----|--|------------|-----------|
| 3.1 | Do you own any shares, units in a unit trust or other investments (for example, convertible notes)? | Yes | No |
| 3.2 | If so, did your interests change during the year (that is, because they were sold, transferred, cancelled or ended)? | Yes | No |
| 3.3 | Did your interests in an employee share scheme change? | Yes | No |
| 3.4 | Did you receive compensation in the past year in respect of any investments you own? | Yes | No |
| 3.5 | Did you receive a non-assessable payment from a company or trust in which you have an investment? | Yes | No |
| 3.6 | Did you receive a distribution from a trust that includes a capital gain? | Yes | No |
| 3.7 | Has the trustee provided you with a statement indicating how they calculated the trust's capital gain? | Yes | No |
| 3.8 | Has the entity in which you own an investment: | | |
| | <ul style="list-style-type: none">• been involved in a takeover, demerger, demutualisation or merger | Yes | No |
| | <ul style="list-style-type: none">• gone into liquidation, or | Yes | No |
| | <ul style="list-style-type: none">• conducted a share buy-back? | Yes | No |
| 3.9 | Did you acquire any of your shares or units: | | |
| | <ul style="list-style-type: none">• under a dividend or distribution re-investment plan | Yes | No |

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|--|------------|-----------|
| • under a bonus issue, or | Yes | No |
| • as the result of the exercise of a right or option to acquire additional shares/units? | Yes | No |

4. Trust distributions

- | | | | |
|-----|--|------------|-----------|
| 4.1 | Are you a beneficiary of any other trust (that is, other than one in which you hold units as an investment)? | Yes | No |
| 4.2 | Have you received a distribution from the trust that includes a capital gain? | Yes | No |
| 4.3 | If so, has the trustee provided you with a statement indicating how they calculated the trust's capital gain? | Yes | No |
| 4.4 | Have you received a distribution from the trust that includes a non-assessable payment? | Yes | No |
| 4.5 | If so, has the trustee provided you with a statement indicating the nature of the distribution? (for example tax-free amounts, CGT concession amounts, tax exempted amounts, tax-deferred amounts) | Yes | No |

5. Business

- | | | | |
|-----|---|------------|-----------|
| 5.1 | Do you own a small business or have an interest in one? | Yes | No |
| 5.2 | Did you dispose of all or some of the assets of a business during the year? | Yes | No |
| 5.3 | If you did dispose of any business assets, did you account for GST on those assets? | Yes | No |
| 5.4 | Did you acquire a business or business assets during the year? | Yes | No |

6. Marriage breakdown

- | | | | |
|-----|--|------------|-----------|
| 6.1 | Have you acquired an asset, or an interest in one, from your former spouse after the breakdown of your marriage? | Yes | No |
| 6.2 | Did you acquire the asset as the result of a court order? | Yes | No |

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7. Deceased estates

- | | | | |
|-----|---|------------|-----------|
| 7.1 | Are you the legal personal representative (LPR) or beneficiary of a deceased person's estate? | Yes | No |
| 7.2 | Have you distributed (LPR) or received a distribution of (beneficiary) an asset from the deceased estate? | Yes | No |

8. Other CGT events

- | | | | |
|-----|--|------------|-----------|
| 8.1 | Has your interest in a collectable acquired for more than \$500 changed (including items such as art, antiques, valuable metals, jewellery, coins or medallions, rare books and manuscripts and postage stamps)? | Yes | No |
| 8.2 | Has your interest in a personal use asset acquired for more than \$10,000 changed (including items such as boats, furniture, electrical goods and household items)? | Yes | No |
| 8.3 | Have you received or become entitled to a capital payment (including compensation, restrictive covenants, contingent payments, or other consideration for an act, transaction or event)? | Yes | No |

If you answered 'yes' to one or more questions, CGT implications may apply and should be investigated.

The importance of record keeping.

Records need to be kept for everything that affects capital gains and losses. Keeping appropriate records will help to calculate the correct amount of a capital gain or loss made when a CGT event happens.

- | | | |
|--|------------|-----------|
| Are you aware of the records that you need to keep to calculate your capital gains or losses? | Yes | No |
| Are you aware that you need to keep these records for five years after the last relevant CGT event? | Yes | No |
| Are you aware that an asset register may enable you to discard records that would otherwise need to be kept? | Yes | No |
| Do you have a prior year capital loss that has been carried forward? | Yes | No |
| Have you considered the GST implications in relation to your CGT events? | Yes | No |

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