

Please note: The information in this newsletter is to highlight issues of general interest for Clients and must not be used as a basis to formulate decisions. Please call us for more detailed advice that will be applicable for your specific circumstances.

* Complimentary for Clients.

This Issue

- ◆ Fringe Benefits Tax
- ◆ Allocated pensions
- ◆ Scam Alert
- ◆ ATO Case Decision
- ◆ Chairs that show you care
- ◆ Subcontracting
- ◆ Export to grow
- ◆ Succession Planning

Fringe Benefits Tax

The area of fringe benefits tax has changed since the introduction of the GST last year. A 'gross-up' formula is now applied to recover any input tax credits obtained as a result of providing the fringe benefit and this will affect the 2001 FBT return preparation.

Essentially there are two types. *Type 1* fringe benefits is where the benefit provider is entitled to input tax credits as a result of providing the benefit and the applicable gross-up factor is 2.1292.

Fringe benefits are *Type 2* when the benefits are those for which the provider is not entitled to claim an input tax credit. It is grossed up by the existing rate of 1.9417.

The higher gross-up factor where input tax credits are available is meant to recoup the effect of the input tax credits from the provision of the fringe benefit. In so doing, this is to assist the net cost of remunerating an employee by way of salary or benefits to remain tax neutral under the GST. This means that the increased FBT payable offsets the input tax credit claimed.

Although it appears confusing, when calculating reportable fringe benefits for recording onto

employee group certificates, all fringe benefits are grossed up at the rate of 1.9417, regardless of the availability of input tax credits.

It is crucial that you talk with us before agreeing to FBT changes for your employees. This will ensure that your employees are not accidentally misled, your records are appropriately maintained and that your business is not disadvantaged.

Ray

Do you want our weekly tax updates ?

Then please send your e-mail address to nina@holbol.com.au



COVER OF EXCELLENCE

Allocated Pensions – can save tax

An allocated pension, in simple terms, is a facility for taking your superannuation fund payout as an income stream during your retirement, instead of a lump sum.

The term "allocated" comes from the fact that you have your own account balance which reflects withdrawals and earnings in contrast to a general pool of "unallocated" money as with life office annuities. Your pension capital is increased by earnings and decreased by payments that you take.

Case Study

Jack (aged 66) and Sarah (aged 64) are a retired couple. They have investments worth \$650,000 made up of an allocated pension in Jack's name worth \$250,000 (purchased a year ago with all Post '83 component money) and a term deposit in Sarah's name worth \$400,000.

Jack and Sarah require an annual income of \$45,000. Sarah's term deposit yields 5% p.a., or \$20,000 so they make up the difference with income payments of \$25,000 from Jack's allocated pension. Their current position is as follows:

Before Strategy

	Jack	Sarah	Combined
Pension Income	\$25,000	Nil	\$25,000
Deductible Amount	(Nil)	N/A	(Nil)
Other Income	Nil	\$20,000	\$20,000
Taxable Income	\$25,000	\$20,000	\$45,000
Tax Payable	\$1,147	\$2,680	\$3,827

Note: These figures are for 2000/2001 and include Medicare

Jack and Sarah are very keen to minimise their tax liability and are thinking about buying an allocated pension in Sarah's name with the money currently invested in the term deposit. However, you can only buy allocated pension with

superannuation money, which means Jack and Sarah must first invest the money from the term deposit into a super fund.

Unfortunately, neither partner can contribute to super in their own right – Jack is over 65 and retired, while Sarah hasn't worked in the past two years.

The good news is that, because Sarah is under 65, Jack can make spouse contributions on her behalf. The full \$400,000 is treated as an undeducted contribution and therefore forms part of the tax-free deductible amount.

Allocated pensions are very flexible investments, allowing Jack and Sarah to vary their income payments (within Government prescribed limits) and minimise their total tax bill. Their revised tax position is as follows:

After Strategy

	Jack	Sarah	Combined
Pension Income	\$20,500	\$24,500	\$45,000
Deductible Amount	(Nil)	(\$18,570)	(\$18,570)
Other Income	Nil	Nil	Nil
Taxable Income	\$18,000	\$5,930	\$23,930
Tax Payable	Nil	Nil	Nil

By implementing this strategy, Jack and Sarah have reduced their tax bill by over \$3,827 a year!

Consider the tax saved over the next 15 years !

Alex



Scam Alert

Scams target small businesses and often rely on the fact that you're very busy and will give them the information they ask for without thinking about it. There is a wide variety of scams which rip off small businesses.

Common scam 1: Fake billing

Fake billing often involves trying to convince you to pay for something you have not asked for—such as advertising, usually in magazines or journals.

What should you do?

Ask questions and check your records. Don't take their word for it if you've never heard of the publication or they say that you've advertised with them before. If they claim they already have a contract with you, ask for evidence of the contract. Ask why you need their service and to

show you copies of previous work they have completed.

Common scam 2: Misrepresentations

The second

most common scam occurs when someone passes themselves off as someone or something they are not—for example, they claim to be from a government agency or a registered charity. You may be directed to list your business on an 'official register'. Beware—this may be a scam!

What should you do?

Ask them which government department or charity they are from, why they have contacted you, who they represent and what services they provide. Additionally, ring the telephone number listed in the white pages to verify that they are who they say.

(Source: ATO's Small Business Newsletter December 2000)

Interesting Case Decision from the ATO

Case

Is a loss incurred by a company through embezzlement by its former employee deductible under section 25-45 (*Income Tax Assessment Act 1997* (ITAA 1997))? (CDS10350)

Decision 6 September 1999: **Yes.** The loss is deductible under section 25-45 (ITAA 1997).

Facts:

A former employee of the taxpayer worked on a part time basis as a bookkeeper/administrator entering financial transactions into the company's software system, and for day to day handling of mail and cheques. During the 18 month period a number of cheques were applied for the employee's benefit without authorisation of the taxpayer.

Reasons for Decision:

Section 25-45 (ITAA 1997) specifically provides a deduction for a loss caused by the theft, stealing, embezzlement, larceny, defalcation or misappropriation by an employee or agent of the taxpayer.

In the present case, the taxpayer's loss was the result of embezzlement by an employee. The loss was discovered in the income year and the money embezzled was also included in the taxpayer's assessable income for the income year. The taxpayer is, therefore, entitled to a deduction for the loss.

Chairs that show you care

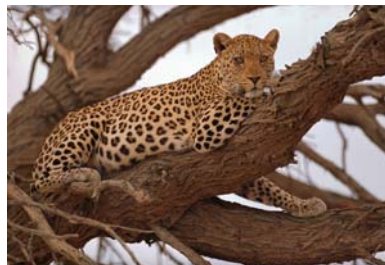
These days, people's expectations are greater than even one or two years ago, especially with the involvement of new technology. We spend a third of our lives sitting down and most of us work in offices, both of which can contribute to unhealthy postural and vascular problems.

Ergonomics is the study of the relationship between persons and

their working environment. An ergonomic solution may not involve buying a whole lot of new furniture. Simply re-arranging a work space may alleviate twisting and reaching that could lead to lower back pain, a huge compensation bill and lost time bill for the employer.

Alex Walter, Sales Manager for Herman Miller, says "The design of a chair makes an essential contribution to the comfort, health and performance of the office worker".

Even if a worker is not suffering from some form of RSI, thousands suffer from TGS, Transferred Grouch Syndrome. The two most common symptoms of TGS are complaints about lighting and air conditioning, however it is really a combination of poor furniture and management that is the problem. Good management is about caring for staff and this manifests itself in many ways, good furniture, leave, overtime, sick pay and training. It's about the way management deals with its team members.



Book Review

"Expeditions"
by Andrew Lindblade
Be inspired about high risk and high reward. Lindblade is one of Australia's leading mountaineers and his ascents have attracted worldwide acclaim.

His writing captures the stark rawness and essence of mountaineering, and the planning, organisation and commitment it takes to succeed at this level.

Top tip
If you want to command premium prices, solving a Client's needs is not enough; you have to improve the Client's condition.

What will happen to my business?

Over the next 10 years, the retirement of family business owners will accompany the transfer of ownership of an estimated \$607 billion of wealth, according to the Australian Family and Private Business Survey 1997.

However very few indicated they were planning for this event. More alarming is that almost 40% of first generation owners reported that their retirement was dependent on the use of business assets, and 24.7% indicated that retirement was contingent on the sale of their business.

Family business owners do not seem to be aware of the complexity of the succession process. Findings reported from overseas indicate, for example, that of the 156 family businesses that change hands daily in Germany, about half do not survive the inheritance process. Succession planning for businesses also applies to the event of death and disablement. For example a co-owner's death can be a burden and chaotic time for a business when the need exists for the remaining owner(s) to make suitable financial arrangements with the co-owner's Estate.

Partner, **Brian Willet** specialises in this area of Business Succession planning and can assist you to implement the most appropriate structures.

Subcontracting - a business decision

When choosing who to invite to tender for your work, due consideration should be given to the potential subcontractor's reputation; credit worthiness; resources (equipment, staff, premises etc); work methods (planning, control, quality systems etc); capacity; location; insurance and history of disputes. It is useful to establish just what percentage of the subcontractor's total work your job will represent, as conflicting demands can impact on urgent deliveries etc.

The personality of the proprietor may also be a deciding factor, because it is important to be able to work easily and communicate well with any partner in a job. Finally it is a good idea to make a physical inspection of the potential subcontractor's premises giving due regard to the quality of employees, and other indicators of a well-run business, such as tidiness, cleanliness, age of equipment etc.

If possible obtain and check-out several trade and bank references, check appropriate insurance policies, ascertain what awards are in force and ensure that the subcontractor is paying occupational superannuation.

When drawing up the Contract of Supply ensure that the following is clearly stated:

- terms of payment;
- delivery terms and penalties;
- complete specifications of work to be completed/ parts to be made etc;
- details of quality levels, exact finishes, quality of raw materials etc; and
- required notice of delivery days etc.

If you wish, you can specify that the first subcontractor cannot contract out to second and third tier contractors unless they have your express permission. You may also like to try to limit the subcontractor's ability to make and sell like products to your own for a specified period after the current trade relationship ends. This is a guard against increased competition.

Written acceptance of all provided details should be sought and any changes that are made verbally, no matter how small, should be followed up with written documentation, as a guard against later disputes.

(Source: Australian Business)

Export to grow

This month, senior partner **Ray Beath** is confirming business associations in Singapore, Malaysia and Hong Kong to assist Holden & Bolster Clients who are planning off shore business and export operations.

Most exporters from Australia are small businesses even though the export revenue is dominated by large businesses. During 1997-98, of the 21,800 exporting businesses, 77% (16,600) were small businesses (i.e. employing less than 20 people) and these accounted for 13% of total export revenue. Notable is that 3,500 of these small firms were exporting services. Not all exporters are continuously involved in exporting; for some it is a short-term activity; for others it is intermittent behaviour.

Exporting is not as difficult as you might first expect. Austrade manages several export assistance programs designed to help companies enter foreign markets. Through these programs, they offer advice and information. Marketing your product or service overseas is expensive. You will be incurring costs in the early stages of your export campaign, while you are working hard to build a client base and before you begin to benefit from export sales. However, the Federal Government is committed to supporting Australian firms financially while they are working to start an export operation. Austrade will advise what financial assistance is available to your business to help develop export markets, including the Export Market Development Grant (EMDG) Scheme which Holden & Bolster can assist you to apply for as well as ensuring you have the appropriate financial and taxation structures in place.

Profit is...

Paul Dunn founder, Results Accountants Systems points out that profits are a lagging indicator of customer behaviour. The notion of "profit centres" in a business is a misnomer. Internally, in any organisation, there are costs and efforts. He quotes Peter Drucker "The only profit centre you have is a customer's cheque that doesn't bounce".



Success depends on the effectiveness of implementation