



2008

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... the small business specialists

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TIME TO CONSOLIDATE

WELCOME EVERYONE, AS A NEW TAX YEAR DAWNS!

Since our last newsletter, we have seen a change of Federal Government, a generally tightening of credit, a decline in forecasted growth rates, rising inflation, particularly on food and oil prices here in Australia. Our last newsletter was called "End of an Era" and I think in hindsight we were close to the money.

Our newsletter focuses on areas that have changed which will affect many of our business and individual clients and as usual please contact us if you require further information. In the Individual section, we focus on the major federal budget reforms and in the business section we review the small business concessions which have now replaced the Simplified Tax System (STS).

What is the secret to accumulating wealth? Well it is no secret – it is just a case of disciplined savings over a long period of time into fundamentally strong, long-term investments. I am being asked more and more to sit down with our clients and cover some of the theory's to wealth accumulation and I am doing more one-on-one consultations in this area. Perhaps you are interested?



Most of our Hunter businesses have had a very profitable 2008 and we would like to continue our support for you and your businesses. If you have any tax questions or difficulties don't hesitate to contact us on 02 49.408765 or at scott@novabp.com or nat@novabp.com. You can also visit our website at www.novabp.com. Whether it is training, mentoring or help with your taxation, please let us know how we can provide you with a better service.

Natalie and Scott

Now, onto taxation and related issues:

INDIVIDUALS

The recent federal budget was aimed at middle income families (some would argue at the expense of higher income families) with a range of adjustments to income tax rates, family tax benefits, the baby bonus and child care rebates. Most of which are summarized below.

The new rates for 2008/2009 are:

Taxable Income	Amount of Tax owing:
\$0 - \$6,000	Nil
\$ 6,001 - \$34,000	\$0 + 15% of each dollar above \$ 6,000
\$34,001 - \$80,000	\$4,200 + 30% of each dollar above \$34,001
\$80,001 - \$180,000	\$18,000 + 40% of each dollar above \$80,001
\$180,000 +	\$58,000 + 45% of each dollar above \$180,001

You will note that the 30% tax bracket now covers most middle income earners and is the same rate as the company tax rate.

FAMILIES



Families with children at day care centres will have their rebate increased from 30% (of a parent's out-of-pocket costs) up to 50% with a new limit of \$7,500 per child. However, families with total income exceeding \$150,000 will have their baby bonus axed along with family tax benefit (Part B). Don't forget if your financial circumstances change you must let Centrelink know your new estimates for family income.



MEDICARE LEVY SURCHARGE

The thresholds for the Medicare levy surcharge have lifted substantially – a discouragement to people to join or remain in a private Health Fund. The levy remains at 1% (on top of the Medicare levy of 1.5%) but for single people the threshold has risen from \$50,000 to \$100,000 and for families, total income has risen from \$100,000 to \$150,000 per year.

RETIREEES



There were few changes in the recent budget which is not that surprising given the major changes to superannuation in recent years. The amount of income a person eligible for the senior Australian tax offset (SATO) can earn before they incur a tax liability is now up to \$28,867 for singles and \$49,360 for a couple. The Commonwealth Seniors Health card will also be subject to new compliance checks and the income test will change from 2009.

SMALL BUSINESS CONCESSIONS

These business concessions have taken over from the Simplified Tax System or (S.T.S) on July 1st 2007 and were introduced to reduce the compliance costs of small business entities – so they kick in for the 2008 tax year. All small businesses with a yearly turnover of less than two million are eligible for these concessions (most of the concessions will be familiar to you and are summarized below).

The major concessions are:

- Most assets can be depreciated at 15% p.a. in their first year regardless of when in the first year they are brought (except long life assets). From the second year onwards, they are pooled and depreciated at 30% p.a. reducing balance. Assets under \$1,000 are written off in their first year. Longer life assets are pooled in a long life pool and depreciated at 5% p.a.
- Reporting of accounts can be on a cash basis or a non-cash basis for your business. If you report on a cash basis, this brings it into line with GST requirements; most of our

clients have elected to report on the cash basis. Debtors and creditors are not included in the cash based system.

- Estimates of stock takes on June 30th are permitted providing they are within \$5,000 of actual stock figures.
- Capital Gains Tax concessions apply for business owners. They include the 15 year asset exemption, 50% active asset reduction, the retirement exemption and rollover, which enable business owners to greatly reduce capital gains liability on the sale of their business.
- The Entrepreneur's Tax Offset enables businesses to reduce their tax by up to 25% off the business portion of the individual's tax bill. The entrepreneur's tax offset automatically applies to sole traders, partnerships and companies. The offset works on a sliding scale that will cut out when the turnover exceeds \$75,000.

BUSINESS NEWS

BUSINESS GROWTH - What is a good growth rate for my business?

A consistently, well performing business will grow at an annual rate of around 15 – 20% per annum. This means the business will double in size in around four years. If you look at your own sales how have you gone in recent years? The other important factor of course is margins! Sales growth tells only part of the story. Your margins need to remain healthy. In most cases, when businesses get too busy, they need to take three invaluable steps:

- 1) they lift their prices to all new customers
- 2) they value add to their "better" existing customers and
- 3) they weed out lower margined work to make room for the first two steps!

Another important factor to ask yourself is: If the business will double in four years (15-20% compound growth) what improvements to my business systems are needed to handle this increase?



KILOMETER METHOD

Along with the log book this is one of the more popular methods for sole-traders and partnerships to claim a tax deduction for their car. The rates for the smaller vehicles (less than 1600cc) is 58c to the kilometer, for medium vehicles (1601 – 2600cc) it is 69c per km and for larger vehicles (greater than 2600cc) the rate is 70c per km. You can claim up to a maximum of 5,000 kms in any tax year for business use.

SUPER CO-CONTRIBUTION *Good News!*

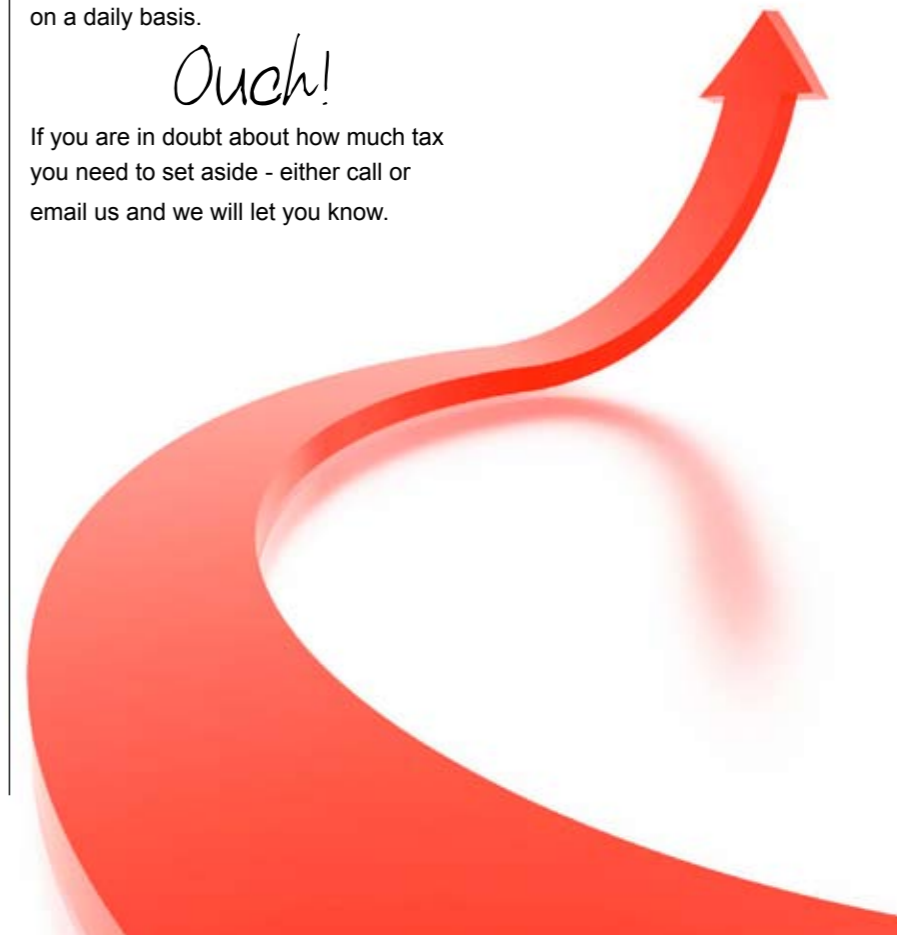
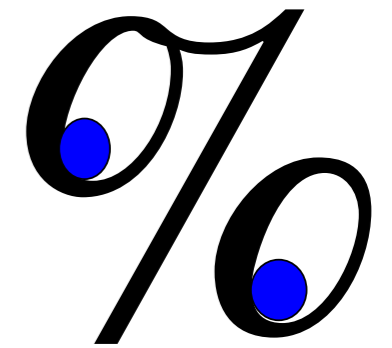
In most cases the super co-contribution has been opened up to business owners (sole-traders and partnerships). The contribution has to be an after tax contribution, therefore an amount not claimed as a tax deduction. You're after tax contribution can result in a payment of \$1.50 paid by the government to your \$1.00 - up to an upper limit of \$1,500. To be eligible your taxable income has to be below \$28,980 for the full co-contribution sliding down to just under \$60,000. But be quick – the amount needs to be put into your approved super fund by June 30th 2008 and this is a scheme that may not be around in a few years time.

TAX OFFICE INTEREST RATES

Some clients who are struggling with a tax bill ask me about the merits of going onto some type of payment plan with the A.T.O. My answer to them is that a payment plan should only be done as a last resort. Why? Because the General Interest Charge charged by the ATO is now at 14.69% and interest is calculated on a daily basis.

Ouch!

If you are in doubt about how much tax you need to set aside - either call or email us and we will let you know.



SUPERANNUATION



Each year when I prepare my clients' taxation returns I often ask: How is your superannuation performing? The most common answers are: "I don't know!" or "I've been too busy to look at it!" I understand that it is easy to get too busy, particularly when operating your own business, but can you find another way of making time?

The reason it is so important is that in wealth accumulation your best ally is "time" and the secret to wealth accumulation has just three steps:

- it is just a case of a disciplined savings pattern
- over a long period of time
- investing into fundamentally strong, long-term investment/s.

As they say, it isn't rocket science!! The reason a long period of time is so essential in accumulating wealth is that compound growth works best when it is over a long period of time – say 15 to 20 years!

Let me put this too you ... try these ten questions to see how your wealth accumulation is heading.

- Do you know how much you really need for your retirement?
- Do you have a savings plan (or better still, a wealth creation plan) in place?
- Do I know how my superannuation performed last year? The previous year?
- What is a good return for a super fund?
- Where has my superfund invested my money? How much risk do I want?

- What age will I have to be before I can access my superannuation?
- Will I be eligible for a government pension? Will my partner be eligible?
- Am I carrying a "safe" amount of personal or business debt?
- Would I benefit from holding a SMSF super fund? What are the benefits?
- Do I understand the latest tax changes relating to superannuation?

So, how did you go? If you believe you would like to understand more about wealth creation I will continue to offer one-on-one consultations throughout the year. In the meantime would you like to read up on this subject? If so, we have a recommended reading list of experts from Australia and overseas. Please call us and we will email you a copy.