



# Land McKaig

## Late Mail

July, 2010 - Issue 23

### 5 things you need to know in 2010/2011

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***"Money talks; the secret is to hold it long enough to hear what it says" - W.G.P.***

#### Stay cautious on the economy

Australia survived the global economic crises relatively unscathed but be wary, it might not be over yet as our economy is still susceptible to international conditions. We're predicted to grow at a comparably healthy 3.25% but that assumes that conditions remain reasonably consistent.

Not all that long ago a change in economic conditions in smaller European countries did not have a big impact on the international markets. However, economic conditions are fragile to the point where the defeat of an austerity plan in Portugal and Portugal's subsequent ratings downgrade, had an immediate and significant impact on international markets (even though Portugal only represents around 1.89% of the Euro Zone economy). Of course the impact of Portugal followed Dubai's announcement in November 2009 that it was unable to pay its debts, followed by Greece's inability to pay its Euro 110b loan, then Spain. Dubai has friends willing to fund them but the same cannot necessarily be said for many of the European nations and they are not in a position to trade themselves out of debt with production in many countries seriously affected by the crisis. The fear is that there is no cash left (or anyone willing to lend to them) to get some countries out of debt so the slightest 'speed hump' in their recovery has a ripple effect across international markets.

In Australia, the economy is uneven. We're starting to see a slow-down in some sectors as the impact of the interest rate hikes (there was a substantial fall in new and used dwelling investment last quarter) and the end of the economic stimulus packages are felt (business investment was down 6% last quarter). Production within our economy is also slowing with a 0.9% fall in the March quarter. The strength of our economy continues to be driven by the mining sector and continued resource demand from China. Plus, with an election looming, everything slows down as the economy shifts into a 'wait and see' mode (except advertisers and media buyers perhaps!).

So, remain cautious and ensure that you plan for the next 12 months and keep a strong eye on performance (see plan or perish below!).

#### Plan or perish

With a new financial year just under way you have the opportunity to financially map your business. If you get this financial mapping right, you reduce your risk and remove some of the surprises that can occur along the way.

Start by putting together an operating budget for the business. This should not be last years' figures adjusted by some percentage. Look at each line item and assess it critically. Start with your revenue and work up a reliable estimate of your income for the coming year.

You should start to think about what marketing or other activities will be required to produce this income. Once you are comfortable with the income estimates have a look at your expenses and again work up your expenditure budget. Be tough on your costs. Can you manage them more effectively? Also, allow for increases that are likely to flow through into the current year or any additional costs you will incur due to growth. Working through this exercise should allow you to produce your operating budget and identify your likely profit for the coming year. Once you have this figure then it might be an idea to do a couple of alternative estimates so that you understand the impact of changes to your assumptions.

Once you have your forecast profit position, reduce that to a cash flow forecast. You need to know both your profit and cash position. Arriving at your cash position is about understanding the timing differences: How long will it take for your customers to pay you? How much stock will you need to hold? And, what are the payment terms required by your suppliers? With your cash flow, don't forget to allow for things like tax payments, loan repayments, dividends and any capital purchases that are planned. These can be 'big ticket' items and if you don't allow for them then you will get caught out.

As part of your cash flow forecast identify your capital expenditure requirements. Don't deal with these on a one-off basis as they arise, plan them in advance.

This is a process that we can assist you with. Call us today and we'll get your financial road map underway.

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#### Dates to remember:

- **8 July—11 July, 2010:** Sucrogen Townsville 400 V8 Supercar Festival
- **24 July, 2010:** Townsville Cup at Townsville Turf Club
- **28 July, 2010:** Due date for lodgement of Mar—June 2010 BAS if not lodged through your tax agent
- **30 July—7 August, 2010:** Australian Festival of Chamber Music at Townsville Civic Theatre
- **24 August, 2010:** Townsville Amateurs at Townsville Turf Club
- **4 September, 2010:** Sunwater Burdekin Water Festival Street Parade & Mardi Gras

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### Honeymoon over for SMSF

Over the last 12 months there has been a myriad of new interpretations and legislative tinkering to ensure that no one can take their superannuation early or use it for a purpose other than retirement. The key things to watch out for are:

- Any scheme or plan that allows you to take your superannuation early.
- Make sure that you know what you can contribute to your super and how much you can contribute. If you accidentally put too much into your fund, you cannot simply take it back out. If you have a salary sacrifice agreement in place, make sure you review it for any salary changes so you don't breach the caps.
- Make sure any actions you take are allowed by your trust deed. If you have not updated your trust deed lately you may not be able to take advantage of some options currently available. If it's not in the deed, you can't do it!

### Mine or yours? Taking cash out of and into your business

The Tax Office is very interested in the way business owner's access money from their businesses. Trusts are currently in the spotlight.

A common approach utilised by many businesses with a discretionary trust is to distribute income to a company, pay tax at the corporate tax rate but leave the distribution in the trust for use by the business owners. In effect, the distribution only occurs on paper. Owners then use the distribution as working capital to fund growth, or in some cases, to fund personal assets. The Tax Office intends to tax any of these distributions that remain within the trust (called unpaid present entitlements) under Division 7A.

This change essentially requires you to:

- Ensure that distributions to corporate beneficiaries are paid in full before the company's lodgement day for the year in which the income is appointed; or
- Put a complying loan agreement in place between the company and trust before the company's lodgement day for the year in which the income is appointed; or
- Look at restructuring to achieve the best result for you and your business.

### Watch your funding mix

If you have borrowings, take some time to review them to ensure that you have adequate funding for the coming year and the mix is right. Banks are lending, but with caution. A key criteria is whether the management of the business appears to be in control. Loan applications made on an urgency basis or unexpectedly will get a tougher treatment than a business that identifies their requirements well in advance. Explaining why the funds will be required, how long they will be needed for, and the basis on which they can be paid, will advance your cause.

### What changed on 1 July?

#### Superannuation pension relief extended

At the start of the financial crisis in 2008, the Government announced that they would halve the minimum pension payment amount - that is the minimum amount of pension that you have to take from your superannuation fund. This concession was extended through to the 2009 financial year. The Government recently announced that they will again reduce the minimum pension amount for the 2010/2011 financial year.

In practice what this means is that if you are say 65 years of age on 1 July and receive an account based pension from your superannuation fund, the minimum you have to withdraw is 2.5% of the account balance (instead of 5%). The continued relief means that retirees do not have to sell investments at an inopportune time simply to comply with the regulations.

#### New income tax rates

Taxable income \$	Rate %
0 - 6000	0
6,001 - <b>37,000</b>	15
<b>37,001</b> - 80,000	30
80,001 - 180,000	<b>37</b>
180,001 +	45

#### Superannuation clearing house open for business

If you are a small business with less than 20 employees, the Government run superannuation clearing house is now available. The clearing house is designed to ease the administration burden of paying multiple superannuation funds every quarter to manage your choice of super requirements. Payments are made by BPay to the clearing house. It's a free service. See [www.medicareaustralia.gov.au/super/](http://www.medicareaustralia.gov.au/super/)

The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained. Please contact our offices for further information.

## Rental properties—claiming travel expenses deductions

*Editor: The Tax Office has put out a travel expenses fact sheet for rental properties. The following are excerpts.*

### **What are travel expense deductions?**

Generally, travel expense deductions relate to the cost of travel a taxpayer incurs to inspect or maintain rental properties, or to collect rent.

### **What can taxpayers claim?**

Taxpayers can claim a deduction for travel expenses for:

- preparing the property for new tenants (except for the first tenants);
- inspecting the property during or at the conclusion of tenancy;
- undertaking repairs, where those repairs are a consequence of the damage or wear and tear incurred while being rented out;
- maintenance of the property, such as cleaning and gardening, while it is rented or available for rent;
- collecting the rent; and
- visiting their agent to discuss their rental property.

A full deduction is allowed where the sole purpose of a trip relates to the rental property.

However, where travel expenses are incurred partly for private purposes, only that portion relating to the rental property is an allowable deduction.

Tips to help avoid the common mistakes for travel expense claims

### **Motor vehicle travel expenses**

A common mistake is claiming motor vehicle expenses for travel which is 'incidental' to the main purpose of the journey.

For example, a travel expense deduction cannot be claimed because a taxpayer drives past the property to 'keep an eye on things' on the way to or from work.

### **Example**

Although her local rental property was managed by a property agent, Claire decided to inspect the property three months after the tenants moved in.

During the income year, Claire also made a number of visits to the property in order to carry out minor repairs.

If she travelled 162 kilometers during the course of these visits, she could claim \$113 (at a rate of 70 cents per km).

### **Domestic travel requiring an overnight stay**

A rental property may be located so far from where a taxpayer lives that it would be unreasonable to expect them not to stay near the property overnight when making an inspection.

If this is the case, they are entitled to claim a deduction for travel expenses incurred in travelling to the rental property.

Where an overnight stay is involved, they would be entitled to claim for meals and accommodation.

A common mistake is claiming travel expenses where the main purpose of the trip is to have a holiday or for other private purposes and inspection of the property is 'incidental' to that main purpose.

If the inspection of the property is incidental to the main purpose of the journey, the costs of getting there or the return trip cannot be claimed.

Only local expenses directly related to the property inspection such as taxi fares and a proportion of accommodation expenses can be claimed.

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**Example—apportionment**

Bill and Marli King are joint owners of a rental property in a resort town on the north coast of Queensland.

They spent \$1,800 on airfares and \$1,500 on accommodation when they travelled from their home in Melbourne to (mainly) holiday in the resort town, and to inspect the property.

They also spent \$100 on taxi fares from the hotel to the rental property and return.

The Kings spent one day (10% of the total time) on matters relating to the rental property and nine days swimming and sightseeing.

No deduction can be claimed for any part of the \$1,800 airfares as the predominant purpose of the trip was a holiday.

If the trip included some significant portion of time devoted to the rental property, a suitable apportionment of airfares and accommodation would be considered.

The Kings can claim a deduction for the \$100 taxi fare.

A deduction for 10% of the accommodation expenses would be considered reasonable in the circumstances. That is, Bill and Marli can claim a deduction of \$150 (10% of the \$1,500 accommodation cost).

Including the taxi fare, this is a total claim of \$250. As the Kings jointly own the rental property, they can claim \$125 each.

**Example—accommodation**

Nick travelled from Sydney to the Gold Coast to undertake deductible repairs on his rental property (owned solely by Nick) and took his spouse Kym with him for the purpose of company and shared driving.

Nick and Kym stayed in a hotel where the cost of a single room was \$55 and the cost of a double room was \$70.

As Nick would have incurred the single rate if Kym had not travelled with him, it would be considered reasonable, in the circumstances, for him to claim a deduction of \$55 for accommodation expenses.

**Overseas travel expenses**

Where an Australian resident owns rental properties located overseas, they may periodically travel overseas on holidays and inspect their rental property at the same time.

If the primary purpose of the trip is a holiday, they can't claim the cost of getting there.

They can only claim local expenses directly related to the property inspection such as taxi fares and an apportionment of accommodation expenses.

**Travel prior to purchase**

A common mistake is claiming for travel to inspect the purchase of a property.

Taxpayers can't claim a deduction for these types of costs, either within Australia or for inspecting a rental property located overseas.

**Seminars**

Another common mistake is claiming for travel to (or other costs of) rental seminars that are about helping taxpayers to find suitable rental property to invest in.

Seminars are only tax deductible if they relate to producing income from the property.

Ref: <http://www.ato.gov.au/individuals/content.asp?doc=/content/00205421.htm>



## Land McKaig

### Certified Practising Accountants

### Land McKaig Staffing Update

We have not updated clients on staff appointments and resignations for approximately twelve months. Instead of trying to advise of the appointments and resignations, please take note of the staff in each office.

#### Ayr office

Office Manager – Bronwyn Nucifora

Accountants – Simon Davies, Brett Butler, Julie Kelly, Shannon Musumeci

Accounting support – Melissa Boulter, Fiona Christensen, Alicia Paige, Julie Bourke

Administration – Sarah Ziliotto, Sonia Duncan, Caitlin Barr

Financial planning – Sherell Lando, Rosanne Scuderi

#### Home Hill office

Office Manager – David Catanzaro

Accountants – Kim Corica, Lisa Bandiera-Di-Guglielmo, Carly MacDonald

Accounting Support – Alaina Dale, Carmelann Licciardello, Rachael Booth

Administration – Jenna Paine, Clelia Kirke, Chris Holden, Lyn Cumming

#### Townsville office

Office Manager – Drew Piva

Accountants – Christopher Burnett, Kellie Haller, Stephen Brake

Accounting Support – Margret Batley, Rebecca Pickup, Milva Blair, Kellie Davenport

Administration – Carolyn O’Sullivan, Renee Stent, Katie Slaughter, Toni McKaig, Anita Penny

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