



Hexagon Financial Services
&
Hexagon Tax Professionals

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Summer Newsletter

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Welcome to our Summer Newsletter

How quickly has the year gone?

As we write this quarter's newsletter we are aghast that it is just 3 weeks to go to Christmas and we find ourselves half way through another tax year.

So many things have gone on throughout the calendar year, Sydney Swans celebrated a victory in the AFL over the favourites Hawthorn, Green Moon was a surprise winner on Melbourne Cup Day, and Ricky Ponting announced his retirement from cricket after almost 20 seasons to name just a few of the more recent sporting events .

On the financial front interest rates continued to fall throughout the year, the property market has seen capital depreciation in the first year for many years and blue chip shares have fallen to the point where many companies are now paying dividends higher than term deposit rates.

Many businesses noted a real surge of their online businesses, with others coming under pressure for delaying entering this market, in particular retailers and major

brands have been forced to be online or be far more price competitive to get people to come into their stores.

Australian icons like Darrell Lea, Rosella and the Hastie Group have succumbed to the difficult trading conditions and were placed in administration where others like Kmart and Target have focussed heavily on price and value and appear to be doing well

It will be quite interesting to see what is really happening in the economy over the summer period, and if the interest rate cut in December actually does see an increase in spending, or if more Australians put their savings towards reducing debt or adding more capital to investments such as shares and property.

We hope you find the newsletter of value and more importantly we would like to wish you and all of your family a very merry Xmas and hope the New Year brings you lots of happiness and success.

If there is any area within this newsletter that you would like to discuss please call us. We are here to help.

ATO Updates

ATO's Small Business Benchmarks

Clients may be aware that there are now in excess of 100 industries that have been 'benchmarked' by the ATO, with more on the way.

The benchmarks have been developed by the ATO to provide a guide on the range of figures it would normally expect a small, medium or large business in a particular industry to report, including the expected ratio of income vs. expenses.

Basically, the benchmarks are all about catching businesses that are in the cash economy and 'skimming' cash takings, paying 'cash-in-hand' wages, operating off-the-books and not recording or reporting all sales and purchases.

But in a recent document entitled 'Record Keeping and Cash Transactions', the ATO points out that benchmarks are really all about record keeping.

What this means is that if your business doesn't have the records to back up its reported income and expenses, and if it doesn't fit the benchmark profile, the ATO will amend the tax assessment to match the benchmark.

How do Benchmarks Work in Practice?

Take for example a pizza takeaway shop. The ATO's benchmarks say that for an average size pizza shop turning over between \$150,000 and \$600,000, its average cost of sales should be 40%.

So if a pizza shop was returning gross sales of \$200,000 with cost of sales of \$120,000 (60% rather than the expected 40%), the ATO might be expected to contact the business and advise that it was outside the benchmarks.

If the business did not have the records to prove why it was outside the benchmarks, the ATO could be expected to apply them (e.g., by adjusting gross sales upwards to \$300,000, so that the business's cost of sales of \$120,000 would match the benchmark of 40% of sales).

Since benchmarking is all about either fitting within the benchmarks or having the record keeping systems to prove why your business sits outside the average, please call our office if you would like us to review your systems or discuss how benchmarking might apply to you.

ATO's New Contractor Payments Data Matching Program

The ATO is requesting and collecting information in relation to payments made to approximately 75,000 contractors for the 2010 to 2013 income years.

The information they collect will be electronically matched with ATO data holdings to identify non-compliance with lodgment and reporting obligations under taxation law, and will enable the ATO to:

- identify and address the compliance behaviour of contractors who may not be correctly meeting their taxation obligations;
- be more strategic in its approach to determine appropriate educational and compliance strategies to encourage voluntary compliance for contractors.

The ATO has a 'decision tool' on their website to help taxpayers work out the status of employees/contractors.

GST Can Apply to 'No-Shows'

The following case is important for any businesses that collect money to 'supply' something, but that supply doesn't actually take place. If they keep the money, they may still have a GST liability . . .

The High Court has held that Qantas was liable for GST in respect of payments it received for airfares that were non-refundable (or refundable but unclaimed), even if the customer failed to take the purchased flight, as the airline had still made 'a supply for consideration'.

Qantas contended that GST was not payable on the unused fares, because there was only one projected 'taxable supply' to prospective passengers (namely the supply of air travel) which did not come to pass, and that therefore the GST which had been paid on them should be refunded by the ATO.

However, after considering the actual contractual terms regarding reservations of flights, the Court concluded that Qantas had at least supplied 'a promise to use best endeavours to carry the passenger and baggage, having regard to the circumstances of the business operations of the airline. This was a 'taxable supply for which the consideration, being the fare, was received.' Therefore, Qantas was liable for the GST.

Super Contribution Capping Rules – Individuals aged 75 and over

From 1 July 2012 the super concessional contributions cap is \$25,000 for everyone (i.e. that cap now relates to individuals of any age).

However the ATO has advised that:

- superannuation funds can still only accept 'mandated employer contributions' for members aged 75 years and over;
- where 'mandated employer contributions' are made for people aged 75 or over, the concessional contributions cap will apply to them; and
- other than 'mandated employer contributions', people aged 75 years and older cannot contribute to super.'

'Mandated employer contributions' include super guarantee contributions (although these are not currently required for employees aged 70 or over, this age limit will be removed from 1 July 2013), and those required under an award.

Cars on the ATO's 'FBT Radar'

This financial year, the ATO will be conducting a campaign to make sure employers who have purchased a car during the 2011 and/or 2012 fringe benefits tax (FBT) year are aware that they may have FBT obligations.

An FBT year runs from 1 April until 31 March.

Data has been obtained from various motor vehicle registering bodies to identify employers who have purchased a business registered vehicle but have not registered for FBT.

As a result, the ATO will be writing to about 5,000 employers who fall into this category, to tell them about car fringe benefits and what they need to do to comply with FBT obligations.

The ATO will particularly highlight that:

- if a car is garaged at home, it is taken to be available for private use;
- as a general rule, travel to and from work is private use of a vehicle; and
- there are only limited circumstances where an employee's private use of a car is exempt from FBT.

Changes to Director Obligations

The ATO has reminded company directors of recent changes to the law affecting their personal liability for certain company obligations.

On 29 June 2012, changes were made to the tax laws to reduce the scope for companies to engage in fraudulent 'phoenix activity' or to escape liabilities and payments of employee entitlements.

The changes:

- extend the director penalty regime and the estimates regime to apply to unpaid superannuation guarantee charge (SGC);
- ensure that directors cannot avoid director penalties by placing their company into administration or liquidation when PAYG withholding or SGC remains unpaid and unreported 3 months after the due date; and
- in some instances, make directors and their associates liable to 'PAYG withholding non-compliance tax' – which effectively reduces directors' PAYG credit entitlements where the company has failed to pay amounts withheld to the ATO.



Asset Protection for Business Owners with Partners

Like most accountancy firms we have a mix of sole traders, companies, partnerships and individuals we prepare returns for.

In most cases businesses have number of owners and these businesses can be vulnerable should unforeseen events be left without a documented disaster recovery plan.

We have plans to protect our business against fire, or burglary, claims for public liability and even disaster recovery plans where we back up computer files and take them off site.

One area that always concerns us at Christmas time is what happens to your perceived assets if your business loses a key person or a partner in the business was to pass away.

We pose the reader a few questions:

In your business what happens to the shares in your business if you pass away?

What do you think the value of your shares is worth, and if you do have a feel for this number, does your business partner/s agree and do they have the ready capital to purchase your shares from your estate if it needed to?

If there is no buyout, does your spouse continue as a shareholder in the business, and what impact would that have on the remaining shareholders and the performance of the business?



Is there a an agreement in place that outlines what occurs if such an event took place, one that protects your estate so the company has the funds to purchase your shares without placing it in financial stress?

Or is it possible because you are no longer working in the business that your shares would be cancelled as the business cannot afford to pay your estate if you are no longer generating the income for the business?

There are numerous scenarios, too many for us to contemplate in this newsletter.

The purpose of these scenarios is to highlight the need for one of the most important documents for business owners in a partnership, and that is to have a buy sell agreement.

A buy sell agreement outlines what happens to the business assets and shares of all parties should something occur that may trigger a need for a disposal of shareholding from an affected party.

Creating proceeds to fund a share purchase can be achieved by using Life Insurance, putting aside capital, or be as simple as having gradual share buy backs or something that is unique to your business or partnership.

If you would like to discuss the establishment of a buy sell agreement or enquire about how a life insurance policy can be used in this scenario, give us a call.



HEALTH CHECK

Without going overboard on mortality, in the approach to Christmas, there are a lot of clients looking forward to the break from

work, business, and the day to day grind that comes our way during the year.

The most recent actuarial tables are showing that preventative care is now seeing men live 6 years longer and women 5.

Christmas is often a good time to plan a holiday, take rest and undergo health checks.

Too many of us work, work, work and, unlike our cars which we put in for a regular service, forget about ourselves, falling for the typical Aussie slang 'we'll be right mate'.

A medical health check is quite simple to arrange and is more than just dropping in to the doctor for a cold or flu injection.

Is it worth considering getting full blood testing, checking out our heart performance during activity, doing the prostate testing for men over 40, or for woman having a breast and ovarian check or even having a look for changes to our skin.

On the financial front set out below are 7 areas you may want to review over the Xmas break.

1. Check out your Superannuation Fund

Superannuation is often our greatest asset yet so many members dedicate any time to reviewing the superannuation fund that best suits them. Is a Self managed super fund worth considering, is a master fund or wrap account that allows you to have access to direct shares, and a completely independent list of fund manager choices worthy of consideration?

2. The Mortgage

Because the debt on our principle residence is not tax deductible, reducing the debt should be a priority. Many of the big banks are offering very attractive rates at present for new business and it is wise to be open to swapping banks to save on interest payments.

If you can reduce the interest rate by .5% and keep the same payments up, it is amazing how much time and money you will save over the full term of the loan.

3 Updating Your Will or Prepare One

60% of people over 40 apparently have no will. In addition to this a huge number of Australians have a will

that is out of date. A will is a good starting point, but it might be also wise to consider establishing an estate plan and setting up trusts and appointing guardians if you have children.

4. Make a Budget

It might seem basic but having a budget to work to stops us wasting that little bit of extra cash that could go towards saving or reducing debt.

A really good online budget planner is able to be downloaded at www.moneysmart.gov.au

5. Get rid of the Credit Cards

Credit Cards are so easy to use and offer great flexibility for families. The trap comes when they are overdue and have ridiculous levels of interest accruing, often over 20%.

If you do get in trouble with a credit card consider re financing the card on one of the low interest transfer offers, or by drawing down on the home loan and paying it off.

A good website to compare credit card rates on is www.cannex.com.au

6. Review your Life Insurance and Income Protection Policy Premiums

Income Protection and Life Insurance are very important. Generally speaking once you have the policy in place the insurance company must offer renewal, but can often see premiums rise to the point where they were once competitive with other insurers, to no longer being competitive. Every 3 or 4 years it is wise to ask your Financial Planner or Life Insurance Broker to shop around to see if there are better options. There are so many life insurers and super funds offering insurance that the market is very competitive for new business, it pays to use a broker who knows the differences between policies and who is offering good terms for your profession.

7. Aged Care Planning

Planning ahead for parents or even grand parents aged care needs is something we are never too young to start looking at. There are a lot of tips and traps in the area of planning for aged care and it is worthwhile using the summer break to do a bit of reading if a need in this area is on the horizon. Of course we are available to help guide you on any or all of these matters.

Small Business Accelerated Deduction for Motor Vehicles

One of the few positive changes for small business from 1/7/2012 was small business will be able to immediately write off up to \$5000 on vehicles purchased from that date, and then depreciate the remainder at 15% in that year and 30% in subsequent years.

What a great way to get in to a new vehicle for Christmas!!!

A few traps from an accounting point of view are to be beware of the 'Interest Free' sales offers available on many new car brands.

If you take the Interest free loan you get from the dealer you will pay a higher price for the motor vehicle than if you pay cash or get your finance elsewhere.

Our research has shown you are far better paying the lowest price you can for the new vehicle and obtaining the finance from a broker who structures your loan tax effectively and offers you the true rate.

For some it is much better to pay \$2000 - \$3000 less and pay 8% tax deductible interest than pay more up front at 0% interest.

Shop around online for new car purchase. Websites like www.carsales.com.au are a good guide to see what your car is worth as a trade in, and also is a good indicator to use to see just how much a new car will depreciate in value.

What is the Cloud?

Cloud technology has become a common term in the IT jargon world but really what exactly is it.?

Cloud computing is basically a means of using the internet to access software and store data rather than physically installing it on your computer.

It is often referred to as SAAS, or Software as a service.

Many of us may have used cloud computing without previously realising it. Anyone with a hotmail or gmail account is using the 'cloud'.

The cloud offers small business a number of potential benefits, the cloud alleviates the need to store and manage a data room or have heavy hardware costs.



It horrifies our office when we are doing the interest calculations for clients tax returns to not only see many of the interest rates clients are paying on motor vehicles, or plant and equipment for the business.

We have a number of relationships with lenders, that we encourage clients to use, that in most cases will save significant time, money and effort getting your finance completed.

Most importantly the finance we can assist with will be in the right structure to maximise the tax advantages that business finance can receive.



The cloud offers access to data storage, email systems, customer relationship management programmes, accounting and finance solutions and sales and productivity tools

It means with your laptop you can access your office anywhere in the world.

In recent times there has been a number of major developments in the accounting and bookkeeping applications with software providers such as Xero, MYOB and Reckon (QuickBooks) all offering solutions that we as your accountant can interact with.