

The Greater Building Society Board Appointment



Wayne Russell, partner

Wayne Russell, partner at Farrow Wyatt has recently been appointed to the Board of The Greater Building Society. This is a prestigious appointment and is one that Wayne is looking forward to.

Wayne leads the Farrow Wyatt Audit Division. He was a partner at PricewaterhouseCoopers for 20 years; is a member of the executive and immediate past president of the Australian Financial Institutions Auditors Association; is a graduate and member of the Australian Institute of Company Directors, a registered company auditor and approved financial institution auditor.

Changes in our Singleton office

We are almost half way through the year and it is timely for me to announce the retirement of Robert Ridhalgh at the end of June from our Singleton Office. To service Robert's clients we have appointed the very capable Michelle Whatham who will commence working from the Singleton office full-time as of 1 July.

Robert has been involved with Farrow Wyatt since 2005, however many more know him as a local figure in Singleton and the surrounding area. It would be remiss of me not to sum up his long and distinguished local career.

Despite being born and raised in the Sydney suburb of Castlecrag, Robert met and married a local Singleton lass, Janene in 1978, and following the birth of their two sons in Sydney, they moved back to Janene's home town in 1983.



Robert Ridalgh

Shortly upon his arrival in Singleton, he commenced work with George Souris (the present State member for Upper Hunter) and John Hudson (Hudson & Souris & Co.) in September 1983 and became a partner in January 1984. In March 1988 the name of the firm was changed to Timbury Ridhalgh & Co.

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Pacific Smiles Group expands into Queensland



Pacific Smiles Surgery

Pacific Smiles Group, a long term client of Farrow Wyatt and Australia's largest network of branded dental and eye care centres, has expanded operations into Queensland.

Pacific Smiles is a truly inspiring story of success and growth. Originally starting out as a network of partnership practices in the Hunter Valley, Pacific Smiles Group was established in 2003 and successfully merged three of the practices into a single company structure.

The Group had a very clear vision for establishing such a structure; to pioneer a new approach to the delivery of dental services to patients. This approach enabled dental practitioners to focus on the job at hand, that is patient care rather than managing the practice. The new company also provided opportunity to establish a growth strategy to acquire existing dental centres and develop new ones throughout NSW and interstate.

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Care with CGT

Improvements in technology now provide the Taxation Office with significant opportunities to verify information that is reported – or not reported – by taxpayers. According to the latest Compliance Program 2010-11, in the last 12 months the Taxation Office systems allowed the cross-matching of over 500 million transactions received from third parties to taxpayers' income tax returns.

Increasingly, the Taxation Office is obtaining information from local government authorities (such as the Land Titles offices) as well as corporations as it seeks to verify information provided in returns. Mismatches in information can generate "please explain" enquiries and provide the platform for the Taxation Office to conduct risk reviews or audits.

One of the areas that is currently attracting the taxman's attention is the realisation of capital gains. According to the Compliance Program, most capital gains tax reporting errors occur as a result of:

- omitting the gain;
- inflating the cost base of the asset sold;
- incorrectly accessing one of the various small business or other concessions.

It is the last area where we have seen increasing attention from the Taxation Office, particularly where it is claimed the \$6 million net asset values test is met to allow access to the range of concessions. Rarely does a case go by where the Taxation Office does not ask for proof that the test has been complied with – and it is worth noting that information you provide will be cross-matched to data from other sources.

Proper planning before a sale, and diligence in supporting concessional claims, are the key elements to minimising exposure to capital gains tax and managing challenges to your claim by the taxman!

Another area that is being monitored by the Taxation Office, is the flow of cash into and out of Australia. Information collected by AUSTRAC from financial and other institutions is being used by the Taxation Office to question the existence of assets held offshore or the derivation of income from foreign resources.

SGC – Employees vs Contractors

Several cases have come before the Courts where employers have failed to pay 9% super on behalf of their employees. One case concerned "independent contractors" where the engager/ employer does not believe they have an obligation as they do not believe that the individuals are employees. So far the engager/employer has lost this case and they are requesting special leave to appeal to the High Court. The case concerns contractors working for a market research organisation.

Many employers believe that simply having their workers obtain their own ABN's relieves the employer from all employment obligations – such as Pay as You Go Withholding, Superannuation and Workers Compensation.

Care should be taken in this area as all liability, if there is one, falls back with the employer.

If you believe your staff are independent contractors, and therefore as an employer you have no employment liabilities, you should consult your professional advisor to make sure that this is the case.

Watch out for scammers, says tax office

The Commissioner has reminded people to be aware of scam behaviour and to report anything suspicious. The focus of scams in most instances is to steal personal information. The Tax Office says scammers use phone calls, letters, text messages, emails, bogus websites and even job advertisements to try to obtain financial or other personal details. Once scammers have this information they can steal an individual's identity and commit fraud. Suspicious behaviour can be reported to the Tax Office confidentially by phoning 1800 060 062.

Making your cash flow – how to prevent your business failing



Scott Edden

Cash flow is one of the most critical factors for the success of any business. It is often a misunderstood issue why a business can be profitable yet still have cash flow problems.

Most businesses fail through lack of cash... NOT from lack of profit. Research tells us CASH FLOW is the number one issue for business owners. These same business owners may conclude that to improve poor cash flow, the answer is to sell more. Well for some businesses, making more sales, securing a new contract can be absolute disaster... and a much quicker way to failure. Understanding where the cash goes is the key to controlling it.

Cash is king and the effective management of the cash flow cycle is key to sustainable growth. Healthy cash flow means more options, more value in the business and less stress.

cont. from Changes in our Singleton office

Robert is also known in the area for his community involvement. He was a Hunter Valley Rugby Union referee until 1987, a member/treasurer of Singleton Lions Club until 1995, member/secretary of Singleton Chamber of Commerce, a member of the Singleton Bicentenary Committee and was a coach of Hunter Valley Grammar School rowing teams from 1993 – 1996.

Robert and Janene's immediate retirement plans include swimming, golf and some relaxing from their recently acquired home at Elizabeth Beach, just south of Forster, as well as the planning of the November wedding of their youngest son Lachlan.

We wish to thank Robert for his contribution to our firm and wish him a well deserved and relaxing retirement.

Greg Farrow, partner

cont. from Pacific Smiles Group expands into Queensland

Within this time, Pacific Smiles Group has grown to include 17 dental practices within NSW and 9 in Victoria, incorporating Pacific Smiles Dental Care Centres, nib Dental Care Centres and The Dental Specialists. It also has 4 eye care centres in New South Wales.

The move into Queensland with the acquisition of a highly reputable dental centre in Bribie Island is what John Gibbs, CEO of Pacific Smiles Group, is excited to see as the start of future growth into the State. At the same time the Group plans to continue its expansion throughout NSW and Victoria while commencing the development of a stronger presence in Queensland.

"This is an exciting phase for Pacific Smiles Group because we have been seeking the right opportunity for market entry into Queensland for some time. We are well positioned for accelerated growth in all three eastern states. Like Farrow Wyatt, we are proud of being a Hunter based success story" says John Gibbs.

Free workshop on how to make your cash flow

Following on from the success of recent workshops aimed at equipping businesses with the knowledge and strategies for creating a more successful business, Farrow Wyatt will be hosting a free workshop on the subject of CASH FLOW.

This workshop will identify how changes in business practices and operations can reduce working capital requirements and increase cash.

Two of our Farrow Wyatt Partners (Scott Edden and Wayne Russell) will be hosting the workshop with the assistance of Jarrod Hugo from NAB who will provide some insights into the current issues banks face in this area.

This workshop will cover:

- The drivers of cash flow
- How to interpret a cash flow statement
- Financial operating cycle
- Cash conversion cycle
- The difference between profit and cash
- Strategies to improve and manage cash flow
- Cash flow planning and monitoring
- The impact of business operations on cash flow
- Accounts receivable collection techniques
- Handling cash flow difficulties
- Financial and non-financial indicators
- Directors' responsibilities and obligations
- What to do when there is a cash flow problem
- Action planning

If you know all this then this workshop is not for you!

Details

Venue: Quest Maitland, Ken Tubman Drive, Maitland

Date: Wednesday 22 June, 2011

Time: 12.30-2.00pm

RSVP: Friday 17 June to

kateburls@farrowwyatt.com.au

Important Changes to Division 7A Treatment of Unpaid Present Entitlements

On 14 October 2010 the ATO released Practice Statement PS LA 2010/4, to provide practice guidance on the administration of Taxation Ruling TR 2010/3, which deals with the application of Division 7A to unpaid present entitlements (UPEs) owing from a trust to a private company.

The ATO is now applying Division 7A to trust distributions made, but not paid, to companies.

This provides a restriction on the previously common use of company beneficiaries to limit the tax on trust profits to 30%.

For the 2010 year, the key issues are reviewing your legal structure (in particular, ownership of any company beneficiaries), trust deeds (to clarify the treatment of unpaid distributions) and future strategies for managing the tax imposed on earnings of the trust.

From the 2011 year, a much more active approach will need to be taken to ensure unpaid distributions due to companies meet the requirements of Division 7A and the new practice statement.

Unpaid distributions in existence before 16 December 2009, subject to specific criteria, are not subject to this new approach.

This topic is relevant for clients that have a trust within their group structure that distributes income to a company beneficiary/unit holder.

Please contact your Farrow Wyatt adviser if you would like to discuss the application of Division 7A to your group.

Lodge returns within three months or else...

From 1 July 2011, the ATO is likely to have the power to commence recovery actions against directors for unpaid company liabilities that remain unreported after three months of becoming due. Although we are yet to see the final wording of the legislative amendment, the ATO has indicated that it will be able to provide a notice to directors to hold them personally liable, without the need to provide 21 days' notice.

Returns must be lodged regularly to ensure the ATO can properly monitor delinquent debts and manage their repayment, before the value of the debts gets out of hand. We expect that the ATO will provide more details as to the exact nature of this notice so that we can advise on its likely impact. However, it's important to note that the ATO has tended to pursue recovery rather than allow delayed repayment plans, since late 2010.

Prepare your business for 2011-12

As we prepare for the next financial year, businesses need to take stock of how they have positioned themselves. They need to re-evaluate their position by focussing on efficiencies and reaping the benefits of those initiatives in the coming year.

Business review and planning is not a set and forget strategy, as discussed at a recent workshop focusing on Business Planning, successful businesses revisit their structure and business planning periodically to ensure it is relevant and aligned with their objectives. Now is the perfect opportunity to do this.

Some key strategic areas that every business owner should address periodically include:

» Structural efficiency

Tax

Do you have a business structure which allows you to fund growth in a tax efficient way?

Gearing

Too many business owners are adverse to using debt in their businesses yet at the same time turn a blind eye to the amount of non-deductible debt they have elsewhere i.e. their home loan debt.

Asset protection

All too often we see excess working capital inside active trading businesses or funding being provided to businesses without any consideration to the asset protection issues that were originally paramount when the business structure was established.

» Adequate funding & credit control

Having worked with many growing businesses, one of the most common questions we get asked is: "I am making profits but why don't I have any cash?"

Cash flow

For most businesses "Cash is King!" and often the ability to ensure your business has sufficient liquid funds is the difference between surviving and prospering.

Attend our workshop on cash flow if this applies to you (details on previous page).

» New business partners/succession planning

Quite often your current structure may not permit you to take on a business partner or bring in outside parties into your business.

Are you planning ahead?

» Understanding your business – three-way financial forecasting

Too many businesses fail to plan. As the saying goes "failure to plan is planning to fail".

To understand the health of your business operations and to consider growth and planning objectives it is important business owners prepare forecasts looking forward one to two years rather than relying on historical information that merely highlights the problems.

There are many easy to use forecasting programs available to business owners that are relatively inexpensive and can be used together in conjunction with your accountant.

We have the expertise to assist you.

If you have any questions regarding any of these areas contact your Farrow Wyatt adviser to ensure you are prepared for success in the next financial year.

SMSF borrowing and natural disasters

The Queensland floods highlighted issues for trustees of SMSFs who use the limited recourse borrowing arrangements to buy real property.

The ATO takes a very literal and strict interpretation of the rules to say that where such a loan is in place, the trustee cannot pay for any improvements or renovations for the property. The trustee is limited to only paying for repairs.

With the floods, the repairs needed to many properties would constitute improvements or even a replacement asset, neither of which are allowed while the loan is still outstanding.

This has left trustees in a very precarious situation.

The ATO has advised that it may use its discretionary powers (under section 42A(5) of SIS Act 1993) to provide relief where the property has been damaged as a result of recent natural disasters. This is currently being reviewed with APRA. Trustees should apply to the ATO for discretion if affected.

NSW Stamp Duty on transfer of property to SMSF

The cost of transferring real property into a SMSF is a key consideration. Part of this cost is stamp duty which can be significant and is determined by state or territory legislation. The NSW Government has reduced stamp duty on the transfer of real estate into an SMSF to \$50 if certain criteria is satisfied.

To receive the concession the transfer must be from an individual (or individuals) to the SMSF. The owner cannot be a trust or company. The property transferred must be held for the benefit of those individuals who transferred the property. This means that the property cannot be transferred to the SMSF for the benefit of all members but only those that have transferred ownership and so is likely to require segregation of assets.

This concession applies to the transfer of business real property. A SMSF is generally prohibited from acquiring other real property, such as residential property, from related parties.

Other issues that must also be considered prior to the transfer are:

- investment strategy – is the acquisition of the property consistent with the investment strategy of the SMSF?
- if the SMSF is purchasing the property does it have sufficient cash?
- contribution caps – if the property is being transferred in specie what amount is counted towards the individual's contribution cap and will there be an excess contribution? Will the individuals be claiming part of the contribution as a tax deduction?
- capital gains tax – will capital gains tax be payable and is the individual eligible for the small business CGT concessions on the transfer of business real property?

Super Seminars

The recent seminars held in Singleton and Maitland proved to be highly successful. The main focus of these sessions was to set out the advantages of Self Managed Super Funds (SMSFs) compared to other superannuation and retirement planning vehicles.

The clear message from the sessions is that while SMSFs may not be for everyone, they can be a great vehicle for others towards reaching their retirement goals. The obvious benefits are the flexibility SMSFs provide and the level of control the trustees (owners) of the SMSF can have over their funds to help them prepare for their retirement. Some of the investment choices in a SMSF include the ability to purchase property or a share portfolio. Other benefits include optimising tax concessions and assisting in effective estate planning and asset protection.

We understand that not everyone can make these seminars, and as a result we are offering a free consultation with one of our SMSF specialists to find out if this is something that you should be considering. Call 02 4931 6000 and ask to speak to Kendall Chapman to book an appointment or log on to our website www.farrowwyatt.com.au and visit the tab 'Superannuation and retirement planning' and then click on the 'make an appointment button'.

Post budget highlights

When the Federal Government handed down its Budget for 2011/2012 in May, the general consensus was that the announcements were not as tough as expected.

There were a large number of tax changes announced covering areas such as Superannuation, Income Tax, Capital Gains Tax (CGT), Goods & Services Tax (GST), Fringe Benefits Tax (FBT) and Charities. An outline of the major taxation announcements is provided below.

No changes to Personal Income Tax Rates

No changes have been announced to personal income tax rates, thresholds or tax offset amounts for future income years. Until further advised, personal income tax rates will remain at the levels applicable to the 2011 financial year. You can find the current personal income tax rates on the ATO website (www.ato.gov.au)

Removal of the Low Income Tax Offset (LITO) for Minors

From 1 July 2011, those under the age of 18 will no longer be eligible to access the LITO, currently worth a maximum benefit of \$1,500, to reduce tax payable on their unearned income (i.e. effectively income from non employment sources). The most significant impact will be in relation to distributions to minors from family trusts, a widely used strategy to reduce the overall level of tax paid on distributions from trusts. From 1 July 2011 onwards, this strategy will no longer be tax effective.

Changes to Fringe Benefits Tax treatment of Motor Vehicles

The Government has announced they will reform the statutory formula method for determining the taxable value of car fringe benefits. Instead of determining the fringe benefit value based on the number of kilometres travelled, the Government has proposed to replace this with a single rate of 20% regardless of the distance travelled. This measure will be phased in over four years and will impact clients who enter into new salary sacrifice car arrangements as well as those who have an employer provided vehicle post 7:30pm (AEST) 10 May 2011.

Small Business instant write-off

Small businesses that purchase a vehicle on or after 1 July 2012 will be able to immediately write off up to \$5,000 of the purchase price in the first year, this concession will replace the current Entrepreneurs Tax Offset.

This new write-off is an addition to the Government's proposed tax reforms for small businesses to be introduced in the 2013 financial year that will allow:

- an immediate write-off of all assets valued at under \$5,000 (up from \$1,000 presently)
- a write-off of all other assets (except buildings) in a single depreciation pool at a rate of 30%
- a reduction in company tax rate to 29% for incorporated small businesses.

Phase out and removal of Dependent Spouse Rebate

The Government has announced that the dependent spouse rebate will be removed for taxpayers who have a dependant spouse born on or after 1 July 1971 (i.e. aged 40 or less on the commencement date). The intent is that the removal of this offset benefit will result in the spouse actively looking to rejoin the workforce.

Flood and Cyclone Reconstruction Levy

The Government reaffirmed the implementation of the temporary Flood and Cyclone Reconstruction Levy in the Federal Budget. The levy will apply to taxable income included in both resident and non-resident individuals' tax returns for the 2012 financial year only. The levy will be charged at 0.5% for taxable income between \$50,000 and \$100,000 and 1% of taxable income over \$100,000.

Certain individuals will be exempt from paying the Flood Levy. These are persons who have a taxable income of \$50,000 or less for the 2012 financial year or those who are in receipt of an Australian Government Disaster Recovery Payment from Centrelink for a declared natural disaster that occurred during 2010/11.

Concessional Superannuation Contributions - Higher cap for those 50 and over

The Government reaffirmed the proposal to allow individuals aged 50 and over with total superannuation balances below \$500,000 to continue making up to \$50,000 per year in concessional contributions from 1 July 2012. This proposal was previously announced as part of the Government's response to the Henry Tax Report on 2 May 2010.

Excess Superannuation Contributions Tax - Refund option for Contributions up to \$10,000

The Government will provide eligible individuals who breach the concessional contributions cap by up to \$10,000 with a one-off option to request that these excess contributions be refunded to them. This new refund option will only apply to first time breaches from 1 July 2011. The changes will give individuals the option to take excess concessional contributions out of their superannuation fund and have them assessed as income at their marginal rate of tax, rather than the excess concessional contributions tax rate of 31.5% (in addition to the 15% contributions tax for the fund).

Hunter Investment Forum

Farrow Wyatt recently co-hosted the inaugural Hunter Investment Forum on 24 March. The forum is aimed at equipping local residents in the Hunter with the information necessary to make sound investment decisions, whether they be in the local property market, sharemarket, or making the right investment decision with regards to their superannuation and retirement planning.

Other presenters on the evening were:

Monica Gibson from the Maitland Council, painted the picture of growth and the foreseeable future of Maitland and the surrounding area.

Peter Hogan from Tony Cant Real Estate, provided some real food for thought with regards to the direction of the rental market in the area.

Matthew Durie of Hunter Valuations – Opteon, provided some interesting statistics regarding the local residential market and what to look for when investing in property.

Jennifer Leslie of Farrow Wyatt Financial Services, presented some alternative investment options to property and what to look for and when investing.

Michael Minter of Farrow Wyatt, cast investments in the light of how this can help you plan for your retirement via Self Managed Superannuation Funds and how you can maximise your super benefits.

Helen Grattan of NAB, provided information relating to borrowing strategies when looking to invest.

With a turnout of over 120 people, the forum proved to be highly successful and we anticipate the next Hunter Investment Forum, to be hosted in September/October, to be equally informative and helpful.

If you are interested in receiving future invitations to these forums, register your interest with admin@hunterinvestmentforum.com.au

Key tax dates

DATE	CATEGORY	DESCRIPTION
14 Jul 2011	PAYG withholding	Payers must issue PAYG withholding payment summaries to payees (that is, employees and other workers).
21 Jul 2011	Activity Statements	June 2011 monthly activity statements - final date for lodgement and payment.
21 Jul 2011	Activity Statements	Quarter 4 (April - June 2011) activity statements containing a monthly GST obligation - final date for lodgement and payment. To ensure you receive the correct amount of credit in your income tax assessment, finalise all your PAYG instalments before you lodge your tax return.
21 Jul 2011	Activity Statements	Quarter 4 (April - June 2011) consolidated instalment activity statements - final date for lodgement and payment by a head company of a consolidated group.
28 Jul 2011	Activity statements	Quarter 4 (April - June 2011) activity statements - final date for lodgement and payment. To ensure you receive the correct amount of credit in your income tax assessment, finalise all your PAYG instalments before you lodge your tax return.
28 Jul 2011	PAYG instalments	Quarter 4 (April - June 2011) instalment notices (forms R and T) - final date for payment and, if varying the instalment amount, lodgement. To ensure you receive the correct amount of credit in your income tax assessment, finalise all your PAYG instalments before you lodge your tax return.
28 Jul 2011	GST instalments	Quarter 4 (April - June 2011) instalment notices (forms S and T) - final date for payment and, if varying the instalment amount, lodgement
28 Jul 2011	Superannuation	Superannuation guarantee contributions for quarter 4 2009-11 (1 April - 30 June) are to be made to the fund by this date. If an employer does not pay the minimum superannuation guarantee contributions for quarter 4 by this date, they must pay the SGC and lodge a Superannuation guarantee charge statement - quarterly (NAT 9599, PDF 136KB) with us by 28 August 2011. The SGC is not tax deductible.
11 Aug 2011	Activity statements	Quarter 4 (April - June 2011) activity statements: final date for electronic lodgement and payment. Refer to Lodge your activity statements online for information on your eligibility for this later due date.
14 Aug 2011*	PAYG withholding	Final date for lodgement of the PAYG withholding payment summary annual report. Use this to report amounts withheld from salary and wages and other payments. These amounts are reported at label W2 of the activity statement.
14 Aug 2011*	Superannuation	DASP data records that form part of the PAYG withholding payment summary annual report.
21 Aug 2011*	Activity Statements	July 2011 monthly activity statements: final date for lodgement and payment.
21 Aug 2011*	GST	Final date for eligible monthly GST reporters to elect to report GST annually.
28 Aug 2011*	Superannuation	Superannuation guarantee charge statement - quarterly (NAT 9599, PDF 136KB) (if required contributions were not made by the due date) for quarter 4 2009-10 (1 April - 30 June) to be lodged and paid to the ATO. The SGC is not tax deductible.
21 Sep 2011	Activity statements	August 2011 monthly activity statements: final date for lodgement and payment.

* Denotes lodgment or payment may be made on the first business day after the due date