

Beans & Business

Spring 2011

The Directors and Staff of CMS welcome you to another edition of Beans & Business.

We are already hard at work attending to the income tax and accounting work for many clients in respect of the year ended 30 June 2011. If you haven't already done so now is a great time to begin collating your information. If you require assistance with this process please don't hesitate to contact one of our staff.

A number of changes have taken place at CMS recently that we wish to bring to your attention:

- Our web site has undergone a substantial overhaul giving it a modern feel with greater browsing content thanks to our resident IT guru Steven Tee. Have a peek at www.cmsca.com.au.
- Our financial planning division has updated its dealer group giving an enhanced level of services on offer. Please refer to the article in this newsletter for further information.
- We welcome two new staff members who are introduced in an article later in this edition.



New tax breaks for small business

Need a car? If you're in small business the Government thinks you do. Spreading some joy prior to the Federal Budget, Treasurer Wayne Swan has announced an immediate tax write-off for small business of the first \$5,000 on the cost of a new car used for work purposes. However, the tax write-off is not scheduled to start until the 2012/2013 financial year, so we hope you did not need that car now. The write-off is in addition to other previously announced incentives for small business operators due to start in 2012. These include:

- 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%. Currently, small businesses allocate assets to two different depreciation pools, with two different depreciation rates (30 per cent and five per cent); and
- a reduction in the company tax rate to 29%.

The write-off for cars will replace the current entrepreneur's tax offset that provides a 25% tax offset on business income where income is between \$50,000 and \$75,000.

Getting too close to your business: when personal and business funding blend

Most small business owners are pretty close to their business. For many, it is a major part of their life and the distinction between personal and business is easily blurred. This can also cross over to their financial affairs with business and personal finances being interrelated.

Some recent tax cases are a reminder of the risks you run if you don't keep a sufficient separation between personal and business. Get it wrong and you can lose some valuable tax deductions. The main area of risk is for those that operate their business through another entity such as a company or trust. Maintaining this structural separation is quite common and often makes a lot of sense for asset protection purposes. But problems often occur when you personally incur an expense on behalf of your business and then seek to claim tax deductions for the expense.

The most common example of this is interest costs on borrowing.

Your business needs funding and the bank is reluctant to lend direct to your company but more than happy to lend to you. Or, you decide it would be better to borrow at a personal level because you can secure a much better interest rate. All of this makes sense so far. You are your business; what's the difference whether the business borrows the funds or you borrow them and let the business repay the loan? The problem comes down to who is entitled to the tax deduction. If the loan is in your individual name you may want the tax deduction for interest paid at a personal level. You can only achieve this if there is a reasonable nexus between the interest incurred and income you derive from your business. And, simply earning salary or wages from the business is unlikely to satisfy this requirement. The Court's position is that an employee is not normally required to provide

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Australian Government
Australian Taxation Office

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funding for their employer, so the fact that you earn a salary from the business will not be enough. You need to show a clearer connection; this could be from dividends you are receiving (probably unlikely in the first couple of years of business life), directors fees, or the best evidence is where you have on lent the money to the company and are charging a rate of interest. In this case you would have both interest income and an offsetting expense.

If the loan is in your personal name also be careful about just having the company make the repayment and claim the interest deduction. Your company could run into Division 7A problems and trigger an unexpected tax outcome. Division 7A applies where payments, loans or debts by a private company to a shareholder have or appear to have been forgiven. The division treats these amounts as a deemed dividend to the extent that the amount represents a distribution of the company's profits.

Another common risk area is business expenses claimed at a personal level particularly if you operate your business through a discretionary trust. Where your sole source of personal income is from trust distributions, you are unlikely to be entitled to claim any tax deductions for expenses incurred in earning your income. The reason for this is that as a beneficiary of your trust, you have no right to income until the trustee appoints that income to you at year end. You do not have an automatic right to the income. And, at the time you incurred the expenses throughout the year e.g., car expenses, you had no income. You simply had an expectation that the trustee would appoint income from the trust to you at year end. Unfortunately, that's not enough.

The clear message is that you need to put some formality around arrangements where the personal and the business cross over. Yes, you and the business are almost one - but not from a tax perspective. Get this wrong and it can be expensive.

Talk to us today about how to structure your business to achieve the best possible outcome for your business and yourself.



ATO benchmarks – what you need to know

The ATO use industry benchmarks to assess business performance and will take a closer look at businesses that fall outside of these benchmarks. But what happens if you have a niche business or have unusual trading conditions that mean you will almost never fall within these benchmarks?

This is the major problem with the current benchmarking approach. The ATO has a huge data base of information on business performance. When you lodge your business income tax return your accountant needs to include an industry code that is the closest match to your business. It is through the matching of data against common industry codes that the ATO builds its benchmark information and is able to statistically establish ranges for what is normal. With a lot of businesses however, there is no such thing as normal.

If you operate in a niche area then the industry code applied for your business may be the closest general match but you could have very different business characteristics to other businesses identified under the same code. Where this occurs it may throw you outside of the normal range. Even where you operate a business that is relatively homogenous and similar to a lot of other industry participants you may have multiple revenue streams within the business that cause differences. So, whether or not your business is within the normal range for your industry code can be irrelevant. You should not be trying to work to any pre determined performance range. Drive your business to produce the very best results possible.

Knowing that the ATO may compare your business to others in your sector you may want to ask your accountant to test your key numbers against the performance benchmarks the ATO publish. A good starting point is to see how you measure against the ATO information. More importantly, your accounting systems and record keeping should establish the accuracy of the tax information you are reporting. Your risk position increases significantly if you are outside of the benchmark range and your accounting and information systems are substandard and there are gaps in substantiating your information. Even where you are doing everything correctly you need to be capable of demonstrating that accuracy of your information from your information systems. There is also a higher focus on benchmarks if you are in a business sector that has a higher level of cash sales. From an ATO point of view, you are a higher risk candidate.

If you are concerned about the benchmarks we can complete a review of your position and make recommendations on your accounting and information systems (a mini tax audit on your business to see what the ATO would see). If there are any surprises, it is better to hear it from a friendly source. This would also allow you to fix up any system gaps that exist and be better prepared if the ATO comes calling.

Can your SMSF buy artwork?

Why stop at art? What about collectors items - some fine wine perhaps? Or, a few antiques?

The answer is yes you can (as long as the asset is genuinely for retirement income purposes, not for your personal use now, and not acquired from a related party) but the Government is looking closely at what SMSF's acquire and how those assets are managed.

Last month, the Government released draft regulations that will guide what and how SMSF's buy, sell, and manage collectibles. The regulations seek to ensure that trustees do not gain a benefit from those assets now. For example, you cannot hang artwork purchased by your SMSF on your wall at home or wear jewellery acquired by the fund. This is because the Superannuation Industry Supervision Act (SIS) requires that all

assets acquired by a SMSF are used for retirement purposes only. If you are using the assets now, you breach SIS as the asset is not exclusively for retirement purposes.

Storage of collectibles owned by your SMSF will be a major issue as it will be important to show that you are not benefiting from the asset now – so no storing the asset at home or in the home of a related party. Nor can you arrange to lend the asset to a related party, even if the asset is being rented.

The regulations cover collectable and personal use assets include artwork; jewellery; antiques; artefacts; coins or medallions; postage stamps or first day covers; rare folios, manuscripts or books; memorabilia; wine; cars; recreational boats; and memberships of sporting or social clubs.

CMS Financial Planning now with RI Advice Group

Following extensive research and consideration, and in what we believe to be in the best interests of you - our clients, John Flanagan together with his financial planning department moved their financial services licence to RI Advice Group (RI, formerly RetireInvest).

RI is one of Australia's largest and most well known dealership groups and has advised individuals, families and business how to grow, protect and manage their finances since 1979. It has been a pioneer of the development of the financial planning profession in Australia.

RI supports all advisers with continuous professional development and the philosophy is

one of continually raising the bar. As additional support, RI's dedicated research and technical teams provide up-to-date, quality information and insight to advisers. The teams evaluate industry developments, legislative changes to taxation, social security, superannuation and investment rules, market movements and the performance of investments and risk services to ensure that the strategies recommended are among the best in the field.

RI Advice Group is fully owned by OnePath Australia, one of Australia's leading providers of wealth, insurance and advice solutions. It has been helping Australians grow and protect

their wealth for over 130 years, previously as Mercantile Mutual and more recently as ING Australia. It is a wholly owned subsidiary of Australia and New Zealand Banking Group Limited and operates as ANZ's Australian specialist wealth management and protection business.

There is no change of name, only the licensee that we work under. Our financial planning team will continue to strive for the high levels of service you have come to expect.

CMS Client Profile



G & J East is a third generation farm machinery dealership based at Kadina on the top of Yorke Peninsula. The business was established in 1928 as "B H East" by Beaumont Hugh East, grandfather of the current proprietor, Mathew East. The name "G & J East" derives from Mathew's parents, Graham and Jackie East, who were for many years proprietors of the business.

G & J East provide new and used machinery sales, spare parts and service for major brand names including:

- Massey Ferguson tractors, harvesters and hay equipment
- Gleaner combines
- Claas harvesters and hay equipment
- Hardi spray units
- Morris tillage and seeding equipment
- Simplicity airseeders and cultivators
- SA Bar disc seeders
- MacDon harvesting equipment
- Deutz Fahr tractors
- John Shearer tillage and seeding equipment
- Nitro self propelled sprayers
- Fendt tractors
- Luigong wheeled loaders
- Dieci tele-handlers

- Topcon precision farming tools, and a wide variety of other miscellaneous equipment.

G & J East also provide bearings, belts, oils, bolts, spray parts, safety equipment, welding supplies and a wide range of other supplies to suit the broader farming community.

"Farm machinery for all seasons" is the G & J East motto as the business tries to accommodate all things farmers may need in all seasons of their operation.

The company employs 22 local people who between them have over 300 years of experience with the company.

In 2006, G & J East decided to expand its operations to the Fleurieu Peninsula, buying the Strathalbyn Massey Ferguson dealership and setting up G & J East (Strathalbyn) Pty Ltd. This company now employs 12 people in Strathalbyn and is currently in the process of moving to larger premises. G & J East (Strathalbyn), like the Kadina base, offers the farmers and vignerons of the Fleurieu Peninsula and Adelaide Hills all things in relation to their machinery requirements. They offer similar new machinery franchises and also add localised favourites in Kubota tractors and mowing equipment, Krone hay making equipment, Jaylor feed mixers, Chris Grow (Gason) and Howard slashers, specialised vineyard machinery such as Collard pruners and Braun under vine weeders.

Both businesses are heavily focused on supplying superior service and understand that all machinery needs the best support. G & J East strive for excellence in service delivery with manufacturer trained staff and the most comprehensive range of spare parts held by any regional farm machinery dealership in Australia.

Cleland McFarlane Selth and its predecessor firms are proud to have been associated with G & J East since 1953.

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KADINA SA 5554
T: 08 8821 1188
www.gjeast.com.au

G & J East (Strathalbyn) Pty Ltd
1/35 Milnes Road
STRATHALBYN SA 5255
T: 08 8536 3733
www.gjeast.com.au

The new CMS website

Cleland McFarlane Selth are proud to announce the recent introduction of their new Internet website.

Developed wholly in-house by CMS Information Technology services, the new website has a fresh contemporary look and contains a wealth of information about CMS's wide range of services as well as general news articles on the subjects of accounting, tax, financial planning and IT.

Here are just a few of the new features that will be of particular interest to our clients:

CMS Client Portal

The improved client portal is a special section available exclusively to our clients. Clients can use the portal to send and receive files, pay accounts as well as purchase MYOB software at significantly discounted prices. To access the portal you will need a user code and PIN, if you don't know yours just give us a call or email and we will let you know.

Related Site Search

Our new "related site search" feature allows you to perform "Google" searches for information that are focused towards sites we feel provide information most relevant to our clients. This is a good way to search for financial information without the need to wade through the mostly extraneous sites returned by a normal Google search.

Historic Adelaide Gallery

As a testament to CMS's South Australian focus and commitment, as well as being of interest to many of our clients, is our "Historic Adelaide" gallery. The gallery contains photographs of Adelaide dating back to the early 1900's as well as links to other interesting historical information about Adelaide.

Client Showcase

At CMS we are also committed to our clients success which is why we are building a new client showcase to provide information and links to the websites of just a few of our clients who have achieved huge success in their domain. If you are a client and wish to be included in the showcase just let us know and we will be happy to add you.

Our website is accessible at: www.cmsca.com.au



Mind Your Own Business!

CMS is a MYOB reseller, we can supply MYOB products at wholesale rates. It is in our interest to ensure good records are kept therefore we pass these products on to our clients at cost. Please contact Paul-John Mudie of this office for further information concerning pricing and ordering.

Update - MYOB has traditionally served the PC (Windows) market exclusively. Of recent times MYOB has provided software for Mac users too, if you have a Mac we can assist with an MYOB product to suit.

New Staff

In June, Alexandra Williamson joined the firm as our new receptionist, having moved up to Adelaide from Naracoorte. There she worked with an accounting practice and is comfortable in the professional practice environment. She is settling in well to both the job and life in the city. In August, we welcomed Muhammad Baig to the CMS team as a senior accountant specialising in self managed superannuation funds (SMSF). Muhammad has spent many years in this area with a large SMSF service provider thus gaining invaluable experience and we look forward to the benefits of his expertise for both the firm and our clients.

Congratulations

'Onya Michelle! We are pleased to announce that Michelle Kolze has recently completed her Chartered Accountant Program. Michelle managed to combine two years of grueling study with exemplary performance at work where she has not only been a valuable resource to the business services team but also to the audit team. We are proud of Michelle's achievements and are confident that she will enjoy a successful career.

Nanna Taylor's Words of Wisdom

Delicious Chicken Recipe

Here is a chicken recipe that also includes the use of popcorn as stuffing, Imagine that! When I found this recipe, I thought it was perfect for people like me, who just are not sure how to tell when poultry is thoroughly cooked, but not dried out.

Give this a try.

- Size 18 chicken
- 1 cup melted butter
- 1 cup stuffing
- 1 cup of uncooked popcorn
- Salt & pepper to taste
- Preheat oven to 220°C

Brush chicken well with melted butter, salt and pepper. Fill cavity with stuffing and popcorn. Place in baking pan with the neck end towards the back of the oven. Listen to the popping sounds.

When the chicken blows the oven door open and flies across the room, it's done.

And you thought I couldn't cook!

Contributed by our very own Nanna, Jackey Taylor, Protected Estates

Happy Spring to all from the Directors and staff at CMS.

DISCLAIMER. It is important to note that all information and advice submitted in this issue of Beans & Business is only for the general information of clients and is not to be taken as a substitute for specific advice. If you would like further information please contact us on 8407 1300. Liability limited by a scheme approved under Professional Standards Legislation.



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