



The Square Orange

May 2005

Vision Statements

Imagine three teams sitting in a park at lunchtime, with an approaching rainstorm threatening.

Someone in the first group stands up and yells at everyone, "Get up and follow me!" as he walks towards a tree.

Seeing that only a few have got up, he turns back and screams at the rest "Come on! Get up! This way! Now!"

In the second group someone says, "We'll have to move. This is what we'll do: everyone get up and get into a straight line. When I give the signal we will walk to that tree. Make

sure the tallest is at the back so everyone can see and stay in your line".

In the third team someone also gets up and

says, "Looks like it's about to pour. If we stay here we'll be miserable. Let's do something about! Let's all move under that tree. When the rain comes, we'll finish our lunch in comfort and smell the clean smell of wet grass".

Who would you follow? The autocrat, the mi-

cro-manager, or the visionary?

The autocrat will get things done, but will the effects be permanent? The micro-

manager will ensure change happens, but at a high cost of constant maintenance.

A powerful Vision

will align the corporate Mission with the goals of all its individual components. A powerfully constructed Vision Statement will set the organisation's strategic goals and objectives so clearly that all actions can be measured against it.

Ask us about our Vision Statement services.

Inside this special Tax Planning Issue

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Special points of interest:

- ♦ Teik Oh explains the OTS Management Vision (Page 4)
- ♦ Tax Diary (Bottom of Page 2)

The Year End Tax Planning Issue

This issue sees a big emphasis on Year-End Tax Planning with two months to go before the end of the year.

As another income year

comes to a close on 30 June 2005, it is important that taxpayers take the time to focus on tax planning and the tax issues that affect their

business.

Some of the key tax issues to consider are outlined on pages 2 and 3 of this issue.

Deferring Income

When considering the deferral of income, note the following points:

- As directed by the *Arthur Murray* principle, taxpayers may be able to defer recognition of income received before year-end for services not yet performed.
- Most taxpayers will not be assessable on interest, dividends or



Consider the deferral of income

rent until they are received (unless otherwise paid or credited on the taxpayer's behalf). Therefore, such income may be deferred.

- In general, assessability of income may be deferred until the following year. For example, where taxpayers who record income on a cash/receipts basis bill clients on 30 June, as-

sessable income will not arise until after year-end.

Conversely, taxpayers on an accruals method may choose to perform services after year-end.

- Royalties and insurance proceeds are typically assessable on a cash basis.
- The work in progress (WIP) of professional practices will not be assessable until there is at least an entitlement to bill.

Maximising Deductions

Some initiatives to consider to accelerate deductions are:

- Review debtors and write off bad debts before year-end.
- Realise foreign exchange losses and defer the realisation of gains.
- Bring forward the outlay for deductible expenses.
- Value stock at the lower of re-

placement value or market value, where appropriate.

“Bring forward outlay for deductible expenses”

- Scrap stock, plant or equipment of nil value before year-end,

where possible.

- Ensure that audit fees are incurred before year-end, based on Taxation Ruling IT 2625.
- Use a low value pool, where appropriate, for depreciation of plant and equipment.
- Ensure that all superannuation contributions are paid by year-end.

Capital Gains Tax

Some strategies to minimise CGT include:

- utilising the CGT small business and retirement concessions;
- considering the availability of roll-over relief for disposals to related parties;
- matching gains and losses, where

possible, to avoid carrying forward a capital loss;

- deferring a disposal to ensure that the asset has been held for at least 12 months. This will potentially allow individuals and trusts to benefit from the 50% CGT discount;
- considering whether non-

deductible costs may be included in an asset's cost base;

- considering whether it is most beneficial to utilise the 50% discount, where available, or frozen indexation; and
- deferring a disposal to the subsequent income year.

Tax Consolidation

- Consider whether an election to form a consolidated group should be made for tax purposes.
- If an allocable cost amount is to

be used, or if there are losses, consider whether valuations should be obtained as part of the consolidation process.

- Review the potential tax treat-

ment of losses within company groups.

Tax Diary:-

15 May: Lodgement (and payment where required) of all 2004 Tax Returns which were not required earlier. **21 May:** Lodge and pay April monthly BAS/IAS; lodge FBT return.

Trust Distributions

Make sure a trustee resolves to distribute the net income of the trust before 30 June 2005, or by 31 August 2005 if relying on ATO admin-

istrative concessions.

Remember that year-end trust distributions and income injections

may affect a trust's ability to recoup prior year tax losses and bad debt deductions.

Family Trust Elections

Consider whether a family trust election should be made because of losses or bad debts in trusts.

Ensure optimum utilisation of franking credits and consider making a family trust election where a trust holds shares acquired after 31 December 1997.

Make sure no distributions are

made outside the family group to

"Ensure optimum utilisation of franking credits"

avoid any potential liability for fam-

ily trust distributions tax.

Where a company is owned by discretionary trusts, there may be a need for family trust elections at the trust level if the company has losses. Elections may also be required for use of franking credits as noted above.

Simplified Imputation

- Ensure all dividends paid within a franking period have been franked to the same extent.

- Ensure a company paying a franked dividend has issued a distribution statement in the approved form. Other-wise, the recipient will be unable to claim

the imputation credit as a tax offset.

- Is there any entitlement to a refund of excess franking credits?

Other Issues

Other important matters include the following:

- Consider the effective lives of depreciable assets.
- Where individuals incur losses from business activities, the non-commercial loss rules should be considered because, under those rules, such losses may not be eligible for offset against other assessable income during the year.
- Consider whether any debts have been forgiven, as certain

tax attributes such as carry-forward tax losses and depreciation on plant may be reduced, or a capital gain could arise.

- Where a private company provides loans to shareholders, a careful review of the loan arrangement must be undertaken, as certain rules may deem the loan to be an unfranked dividend.



Consider all issues

- Ensure that any minimum prescribed repayments are made on private company loans.

- Where an individual applies personal efforts and skill in performing services to third parties through an interposed entity (e.g. a company), the personal services income (PSI) rules may deem the individual to be assessable on the income generated. Careful consideration should be given to such arrangements to avoid the application of the PSI rules.

International Issues

Plan to utilise foreign tax credits against Australian tax on foreign income of the same class.

Consider international related party transactions — whether arm's length prices have been charged,

and whether there are transfer pricing issues to address.

Try to match foreign source income of a particular class with related expenditure, to avoid a quarantined foreign loss.

Identify and address other international tax issues such as permanent establishments and controlled foreign companies.



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OTS Management is a quality and value driven boutique consulting and accounting company that provides organisational development services to commercial, growth-oriented Small and Medium Enterprises who require business services, advice and coaching.

We give our clients comfort in their decision-making by providing them with our experience and independent advice that saves them time and helps them grow. Unlike other accounting services companies, our clients have significant contact with our senior people.

We meet our own high expectations in order to exceed the expectations of clients.

Our services include:

- *Change Management consulting*
- *The Zest Factor - find the zest in your organisation*
- *Strategic & Business Planning*
- *SMART Marketing workshops*
- *Team Development workshops*
- *Performance Management Systems*
- *Zest Tests - Business Diagnostics on your organisation*

The Juice

Above "The Juice" every month, we present our Vision Statement.

The first paragraph describes who we are and who we are here to help. What drives our people are the twin factors of Quality and Values. We measure all our work and experiences with clients by the level of Quality we produce and the Values we uphold.

We serve a niche market and consider ourselves to be "boutique" in the sense that we only serve growth-minded SME clients who appreciate our quality and

value-driven services, our coaching and mentoring.

The second paragraph talks about how we would like our clients to feel.

We know that a client does not really want a Business Plan or a Tax Return or some other piece of



Teik Oh describes the OTS Management Vision

paper. What they want from us is peace of mind. They look to our "pieces of paper" as the symbols of our experience, empathy and assistance. What we do makes our clients sleep well at night.

So in order to do that we set high

expectations of ourselves in order to exceed those of our clients.

Not shown above, as they are internal to us in our drive to service you, are the Values by which we measure ourselves. This is our set of beliefs - the things we "are" so that we can "do" our services:-

- Exceeding expectations
- Maintaining strong relationships with clients
- A belief in Quality
- Innovation, creativity and openness to change
- Respect for clients and team members
- Teamwork and communication
- Honesty and integrity
- Efficiency and profitability