



The Square Orange

May 2006

The Big Tax Issue

As it approaches the end of the tax year, we concentrate on tax issues, in particular, tax planning.

As well, last week's 2006 Budget has now been

analysed and we have also produced a separate Budget Briefing for our readers.

In our next, June issue, we will be providing you

with our "Tax Return Checklist" to ensure that you have a reminder about what you need to include, and all the expenses you may be eligible for.

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Special points of interest:

- ◆ *Year End Tax Planning Tips*
- ◆ *Watch out for our 2006 Budget Brief, now out*
- ◆ *Next Month - our Tax Return Checklist*

Your Strategic Plan

We've all heard of Business Plans, but what is a Strategic Plan?

Business planning is about the details and operations of your business or organisation whereas Strategic Planning is all about where you are, where you want to go, and what direction to take to get there.

Strategic Planning gives your business or organisation a direction and a *communication* plan so that everyone in it understands where it is going.

With this understanding you can then develop your Business and Operational Plans so that all of these are *aligned* to the strategic direction. Have you ever been in a position where you made a decision for your business and after 6 months



Pull in the same direction!

you don't seem to have gone very far?

In all probability the message had not got through. Even if your staff had received the message, as they made their day to day decisions they would have applied the shotgun approach and tried to please everyone.

What was needed was a targeted approach - and everyone understanding what is required to achieve that target.

A Strategic Plan gives everyone involved a clear

picture about what is important. A good Strategic Plan *quantifies* this picture into Organisational Goals before establishing Organisational Strategies.

You start with your Vision for your business, then you break this up into key perspectives

and identify key objectives by asking the question "what must I do in this area in order to be like my vision in 5 years' time?"

Finally you establish objectives over the planning period, if possible prioritising year by year.

The OTS Management Strategic Planning system can give you the clarity of your business direction through a process driven approach.

If you want to get there, just ask!

Year End Tax Planning

As another income year comes to a close on 30 June 2006, 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 below.

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 interest, dividend or rent income will not be assessable for until it is received (unless otherwise paid or credited on the taxpayer's behalf). Therefore, such income may be deferred.
- In general, income may be deferred until the 2007 year, significantly delaying tax payments. For example, where taxpayers on a cash/receipts basis of income bill clients on 30 June, assessable 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.
- Work-in-progress 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 a lower replacement value or market value, where appropriate.
- Ensure that audit fees are incurred before year-end, based on Taxation Ruling IT 2625.

Superannuation

- Ensure that employers pay all superannuation contributions by year-end to maximise deductions and avoid potential exposure to the non-deductible superannuation surcharge.
- Consider increasing personal superannuation contributions in light of the abolishment of superannuation surcharge.

“Pay all superannuation contributions by year end”

- Consider the splitting of superannuation contributions between spouses, where they have significantly disproportionate superannuation balances.

Blackhole expenditure

- Review expenditure to ensure that any deductible ‘blackhole’ expenditure is identified.
- The types of expenditure to consider include expenditure on a business plan, the establishment of business premises, research into likely markets or profitability of a business, and capital investment in assets of the business.

Capital Gains Tax

Some strategies to minimise CGT are:

- Utilise the CGT small business and retirement concessions.
 - Consider the availability of roll-over relief for disposals to related parties.
 - Match gains and losses, where possible, to avoid carrying forward a capital loss.
 - Defer a disposal to ensure the asset has been held for at least 12 months. This will potentially allow individuals and trusts to benefit from the 50% CGT discount.
 - Review the cost base of assets to ensure all expenditure available under the expanded definition is included. Such expenditure includes, for example, certain selling costs, capital costs of ownership, and expenditure to preserve, move or install assets.
 - Consider whether non-deductible costs may be included in an asset's cost base including, for example, holding costs such as interest which are non-deductible.
 - Consider whether it is most beneficial to utilise the 50% discount, where available, or frozen indexation.
 - Defer a disposal to the subsequent income year where a gain is anticipated. Consider bringing forward a loss transaction if there are gains to offset.
- ## Tax consolidation
- Consider whether an election to form a consolidated group should be made for tax purposes.
 - If ACA is to be used, or if there are losses, consider whether

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valuations should be obtained as part of the consolidation process.

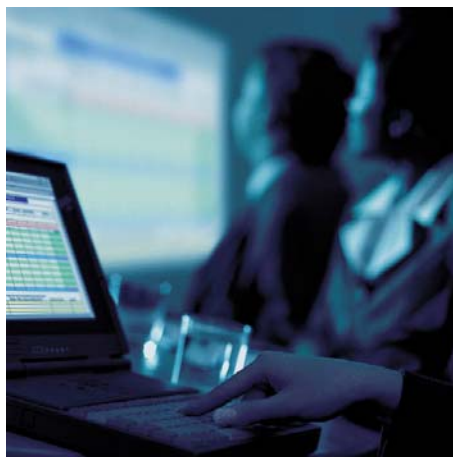
- Review the potential tax treatment of losses within company groups. In particular, consider whether tax losses should be best utilised within a consolidated group (subject to available fractions) or whether the group should remain unconsolidated.
- If a loss group consolidates, consider the potential impact of capital injections into the group, which may reduce access to losses.

Trust distributions

- Make sure a trustee resolves to distribute the net income of the trust before 30 June 2006, or by 31 August 2006 (relying on Tax Office administrative 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.
- Where the trust has derived capital gains, consider the ATO's Practice Statement in relation to the taxation of beneficiaries and the trustee on the trust income and capital and the different potential approaches available.

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 ac-



quired post-31 December 1997.

- Make sure no distributions are made outside the family group to avoid any potential liability for family 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 to enable utilisation of franking credits as noted above.

Simplified imputation

- Ensure all dividends paid within a franking period have been franked to the same extent.
- Ensure that there are adequate franking credits.
- Ensure a company paying a franked dividend has issued a distribution statement in the approved form.

Other key 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 the rules, such losses may not be eligible for offset against other assessable income during the year.

- 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. It may be necessary to ensure appropriate loan agreements are in place and repayments are made.
- Review any similar loans by trusts where a corporate beneficiary has an unpaid present entitlement to trust income. These loans can also result in deemed dividends.
- 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 rules may deem the individual to be assessable on the income generated. Careful consideration of such arrangements should be undertaken to avoid the application of the rules.

International

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



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Important: This is not advice. Clients should not act solely on the basis of the material contained in this Newsletter. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.

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

We are primarily a consulting company, providing business consulting services to SME's.

However our work is based strongly on our understanding of business, and that means we have a core of accounting and tax compliance services.

In both our streams of services, in accordance with our Vision Statement, "our clients have significant contact with our senior people".

In the case of our consulting services, the workshops and seminars are conducted by senior people.

In the case of our compliance work - preparation of accounts and tax returns - our senior people meet with you to ascertain your needs and the circumstances of the year, and are available for all queries

and advice.

Our Vision Statement also states that we "operate as a team, where people self-manage to their expected levels". This means that our senior people who meet with you are not necessarily the people who work on every aspect of your accounts in the back office.



The Team Approach to Your work

Levels of cost mean that it is inefficient to have our most experienced people adding up columns and coding them into our computers when less expensive team members can do so as effectively.

However, how our team approach works is that our experienced people brief and supervise the less experienced people and ensure that quality control is met at every stage of the work.

In this way, the Directors or Managers who meet with you are not the ones who do your work in the back office, but they know every aspect of it and supervise the written procedures through review processes.

This is the way we work to ensure you receive the best quality service at the best value.