CLIENT SOLUTIONS – Spring 2013

NASH SOLUTIONS – Practice News

At Nash Solutions our goal is to provide holistic solutions to client problems, to grow our client businesses and investments and to accumulate client wealth for their retirement. We seek to deliver this by providing accurate, timely and proactive advice.

We value our relationship and if you have any like-minded business associates who could benefit from Nash Solutions services then we would be most grateful for your referral.

Director's partner Donna Carrier, the proprietor of Bent of Food wins Best Breakfast Restaurant and Best Café Restaurant.

Grahame and partner Donna recently attended the Australia Restaurant and Catering Awards for Excellence.

Bent on Food took out the most highly coveted awards on the North Coast, the Best Breakfast Restaurant and in the Best Cafe Restaurant category. Donna was most pleasantly surprised with these accolades as the Awards are based solely on an anonymous visit by a judge, so the food, service and venue standards have to be apparent "on that day".

Congratulations to all the staff at Bent on Food.

CLIENT PROCESSING – 2013 Taxation Compliance

September 2013 BAS	28/10/13#
Monthly BAS / IAS	21st next month
New Superfunds	28/2/14
Larger Companies, Superfunds & Individuals	31/3/14
Taxable Individual, Company and Superfunds	15/5/14#
Fringe Benefits Tax Returns	28/05/14
Non-Tax/ Refund Individual, Company and Superfunds	05/06/14

Further extension may be available.

TAX OFFICE SOLUTIONS- Tax Audit Focus

The ATO now has unprecedented access to data matching that makes it simpler and far more likely that they will audit or review previously untargeted tax payers.

Grahame has the experience to assist clients in the case that they are the target of a tax audit. However, it can be a time consuming and costly exercise to gather, collate and present source documents, check calculations and negotiate with the authorities. We have arranged for Tax Audit Insurance cover to provide our clients with a fixed, cost effective solutions to guard against unbudgeted professional fees, which may be incurred as a result of such an audit, review or investigation.

Tax Audit Insurance provides for the payment of the professional fees otherwise payable by you when incurred as a result of this firm being required to respond, on your behalf, to an Audit, Review or Investigation by the Australian Taxation Office (ATO) or other Government body (e.g. State Revenue Office, Payroll Tax, Workers' Compensation).

The Key areas identified in the ATO's Compliance focus for 2013-14 are:

Individuals:

- Individuals who fail to declare income or make incorrect claims for deductions and benefits
- The tax risks associated with the use of complex business structures
- Correct reporting of taxable income

Employers:

- Reporting of PAYG withholding
- Identifying and correctly reporting fringe benefits provided to employees
- Workers incorrectly treated as contractors rather than employees
- Payment of superannuation guarantee

Business

- Misuse of trusts and omitted income
- Shareholder loans
- Using business funds and assets for personal purposes
- Capital gains tax non-disclosure and under-reporting
- Small business cash economy, Bartercard and PayPal systems
- Small business benchmarks
- Taxable payment reporting in the building and construction industry
- GST – refund integrity and real property transactions

Self-Managed Superannuation Funds

- Use of prohibited loans
- Related party transactions
- Funds with a history of non-compliance
- Incorrect reporting of exempt pension income, tax losses and non-arms length transaction

TECHNICAL ISSUES – Excess Concessional Superannuation Contributions

We can assist to maximise your superannuation in the most tax effective manner.

Concessional Contributions Caps

For the 2013/14 year, there are two concessional contributions caps you need to be aware of when considering contribution strategies, namely:

- $25,000 cap for anyone aged 59 or under;
- $35,000 cap for anyone aged 60 years or over:

Salary Sacrifice

Salary sacrificing simply means paying for something out of your pre-tax income rather than your after-tax income. And although you may still get taxed on this money as a super contribution, it is at a rate less than your marginal income tax rate.

The most common type of salary sacrificing is into superannuation. In this case, your contribution to your super is taxed at 15%. For someone paying tax at the higher income tax rates this is a substantial saving, as well as a welcome encouragement to help you save for retirement.

For example, imagine that you are paying tax at the top rate of 46.5% (including the 1.5 percent Medicare levy). For every $100 of pre-tax salary you earn, after tax you only receive $53.50. But if you salary sacrifice $100 into your super you will receive $85 after tax (the super contribution is taxed at 15%). This is a very welcome increase in savings of $31.50 more for every $100 dollars.

And there's a further tax break. The interest or investment return earned in the super fund is taxed at 15%, while any interest earned outside the super fund is taxed at your top marginal tax rate.

Caution re over-contributing

Excess concessional superannuation contributions post 1 July 2013

Under the previous regime, penalty tax of 31.5% was payable in addition to the 15% contributions tax. This meant excess CCs were taxed at a flat rate of 46.5%, regardless of assessable income.

From 1 July 2013, excess concessional superannuation contributions (CCs) will be taxed at the individual's marginal tax rate (including the Medicare levy).

The ATO will make a determination on the excess CCs and the amount will be added to the individual's assessable income for the same financial year in which the excess contribution applies, where it will be taxable at their marginal tax rate.

The legislation provides a tax offset of 15% representing contributions tax paid in a taxed super fund. This tax offset is not refundable and cannot be carried forward or transferred.

Certain rules remain unchanged, such as:

- ATO discretion to disregard or reallocate excess contributions upon application, and
- taxpayers being able to object to a determination of an excess assessment.

Election to refund excess concessional contributions

The legislation allows a client the choice of:

- retaining the excess CCs in super, and
- have up to 85% of the excess CCs released from super.

If an election is made to have part or all of the excess CCs refunded, this amount, grossed up to allow for 15% tax on contributions, is no longer treated as an excess CC. It also means that amount will not be assessed against the non-concessional contribution cap (NCC).

However, if the individual retains an excess amount in super, the excess CCs continue to be counted against the NCC cap and, if the NCC cap is exceeded, penalty tax is applied under the existing rules at 46.5%.

The ATO will provide the client with the option of having 85% of the excess CCs released from super. The client needs to respond to the ATO with an election and the ATO will issue a release authority to the client's super fund to release the specified amount. The ATO will collect this amount and remit it, net of tax, to the individual.

Most super fund trustees are required to pay the release amount. Certain super fund trustees can choose not to release the amount. This applies to:

- defined benefit interests;
- super interests in a non-complying super fund, and
- a super interest that supports a superannuation income stream.

Super fund trustees are required to notify the ATO of any amounts paid out within seven days.

Generally amounts paid out of super must be in proportion to the tax-free and taxable amounts of the interest. This does not apply to a release under these rules.

The amount received under a release authority is not assessable income and not exempt income. This avoids double counting this amount.

Inclusion in assessable income

Excess CCs are now included in assessable income. Assessable income is used in many definitions of “income” when determining people’s entitlements to certain Government benefits and their liability to pay additional levies or surcharges.

As the amount increases assessable income, it also has the potential to increase “taxable income” and “adjusted taxable income”. Examples where individuals may be impacted are:

- Medicare levy surcharge;
- Government co-contribution;
- Low income super contribution;
- Commonwealth Seniors Health Care Card, and
- Family Tax Benefit.

Planning Points

- Salary Sacrificing to Superannuation
- Getting the Superfund Investment Strategy right
- Monitor concessional contributions so that Excess Contributions Tax is not triggered

Please contact us for more information.

BUSINESS & COMMERCIAL NEWS – FBT changes for cars scrapped

FBT changes for cars

You will recall that in the run up to the Federal Election the Labor Government had proposed to remove the statutory formula method for calculating the taxable value of car fringe benefits for new contracts entered into after 16 July 2013, with effect from 1 April 2014.

The Coalition Government Finance spokesman Andrew Robb has declared Labor's fringe benefits tax crackdown on company cars "dead buried and cremated" with the election of the Coalition.

Under existing legislation, individuals can choose to calculate the taxable value of a car using one of the following methods:

- Statutory formula method or
- Operating cost method

Our income tax return preparation software actually compares the methods and selects the most tax effective method.

Statutory formula method

This method calculates the taxable value by multiplying the relevant statutory percentage by the car's value. Since 10 May 2011 the statutory percentages which were previously based on the year's mileage are being replaced with a single flat rate of 20%.

There is still a tax benefit for salary packing the substantially private family car and applying this method.

Operating cost method

The taxable value is a percentage based on the extent of private use of the total operating costs. This method requires apportioning the car between private and business use and takes into account the actual costs of running the car plus a deemed depreciation cost and statutory interest rate. Under the operating cost method, a log book must be maintained to satisfy record keeping obligations.

This method is a little extra work but can now be a better option for packaging business use vehicles.

Planning Points

- Logbook
- Keep a record of costs
- Nash Solutions will assist you in selecting the best method for each vehicle.

Please contact us for more information.

FINANCIAL PLANNING – Economic Updates

We remind clients that we provide a full range of financial planning services including investments, savings and retirement plans, life and income protection insurance, superannuation, super pension and Centrelink age pension analysis using our **'DomaCom Guided Planning System'.**

 # Economic Update Summary

Risk Off

Risk aversion engulfed markets towards the end of the month driven by the possibility of United States (US) military intervention in Syria following the alleged use of chemical weapons on civilians. The result was a sell-off in risk assets and a flight to safe haven investments including gold and the US dollar. The current US political stand-off and pending Fiscal Cliff is also impacting markets in the short term.

Eurozone emerged from recession

The Eurozone emerged from an 18 month long recession as the economy grew 0.3% in Q2 2013. Underlying the recovery was growth of 0.7% in Germany and 0.5% in France, the region's two largest economies. The contraction in Spain and Italy slowed to 0.1% and 0.2% respectively, while Portugal soared out of recession with growth of 1.1%.

Australian equities resilient in a risk off environment

Australian equities bucked the global trend, finishing the month higher.

US tapering discussions still driving markets

All eyes were once again on the US Federal Reserve (Fed) and the discussion surrounding the eventual withdrawal of Quantitative Easing (QE). Positive economic news coming out of the US, along with the release of the minutes from the Fed meeting resulted in speculation that “tapering” of QE may start as soon which hit both equity and bond markets.

Emerging markets remain weak

The weakness in emerging markets continued over the month driven by the rise in developed market yields amid tapering speculation and the encouraging economic news coming out of the US, Japan and Europe.

Australia – the RBA left the cash rate unchanged at 2.50% at its September and October meeting. The accompanying statement had no mention of further easing and markets interpreted this as a softening in the easing bias.

The Treasury’s Pre-Election Economic and Fiscal Outlook showed the expected current financial year budget deficit to be $30.1 billion and forecast that the budget will post a surplus in the 2016-17 financial year.

Europe – Eurozone manufacturing accelerated over August as the Manufacturing PMI index hit a 26 month high of 51.4, up from 50.3 in July. Euro Area unemployment remained steady at 12.1% in July.

United States – The US economy added 169,000 new jobs in August, falling short of market expectations. Nevertheless, the unemployment rate fell to 7.3%, the lowest level since December 2008.

US gross domestic product (GDP) growth over the June 2013 quarter was revised up to an annual rate of 2.5% from an earlier estimate of 1.7%. The upward revision was driven by stronger exports and lower imports. US manufacturing activity accelerated over August with the ISM Manufacturing purchasing manager’s index (PMI) rising to 55.7 from 55.4 in July.

US house prices continued their ascent, albeit at a marginally slower pace, with the S&P/Case-Shiller House Price Index rising 12.1% for the year to June. Housing starts rose 5.9% over July, while building permits increased 2.7% for the month. Conversely new home sales disappointed, falling 13.4% for July to a seasonally adjusted annual rate of 394,000.

China – Chinese manufacturing returned to growth in August after contracting for three consecutive months, with the HSBC China Manufacturing PMI rising to 50.1, up from 47.7 in July.

Chinese trade data in August showed export growth of 7.2% from a year earlier, up from 5.1% in July. Inflation remains subdued with consumer price index (CPI) rising by 2.6% for the year to August.

Investment Outlook by asset class

Australian Equities – Despite the global sell off, Australian Equities managed to post a positive return of 2.5% for the month. The best performing sectors were Energy (+5.2%) followed by consumer discretionary (+5.1%) and Industrials (+4.7%). The weaker performing sectors were more defensive in nature and included Property Trusts (-0.1%), Telecom Services ((+0.8%) and Financials (excluding property) (+1.1%). Some of the strongest performing stocks included Fortescue Metals (+18.5%), Origin Energy (+11.3%), Santos (+10.3%) and Newcrest Mining (+8.6%). On the other hand, Paladin Energy (-44.0%), Platinum Asset Management (-13.4%) and Spark Infrastructure (-8.8%) were some of the weakest performers. The S&P/ASX Small Ordinaries Index rose 2.9% over the month outperforming the broader index.

International Equities – Global Equity markets were generally weaker over August. The broad MSCI World ex Australia Index fell 1.5% in unhedged terms and 2.0% in hedged terms as the Australian dollar continued to fall against all of the major currencies. More specifically, based on the relative performance of the S&P Developed ex-Australia Large & Mid cap indices, Global Growth (-0.9%) outperformed their Value (-1.8%) counterparts in A$ terms. The strongest performing sectors were Materials (+2.0%) and Information Technology (+0.3%), while Utilities (-3.6%) and Consumer Staples (-2.8%) were the worst performers.

In Australian dollar terms, the Global Small Cap sector fell 1.1%, while Emerging Markets dropped 1.0% in August.

Property – Real Estate Investment Trusts (REITs) performed poorly over the month; domestic REITs (as measured by the S&P/ASX 300 A-REIT Index) fell 0.1%, while Global REITs (as measured by the FTSE EPRA/NAREIT Global Developed Index) lost 4.0% on a fully hedged basis.

Fixed Interest – Global Sovereign Bond yields generally rose across the major markets over the month. Ten-year bond yields rose: in the UK (+25 bps to 2.60%), Germany (+18 bps to 1.85%) and the US (+16 bps to 2.75%); however fell in Japan (-7 bps to 0.72%). Two year bond yields were higher in the US (+8 bps to 0.37%) and Germany (+8 bps to 0.21%). Global Bond indices saw negative returns over the month, as the Citigroup World Government Bond (ex-Australia) Index fell 0.1% and the Barclays Capital Global Aggregate Bond Index lost 0.2%, both on a fully hedged basis.

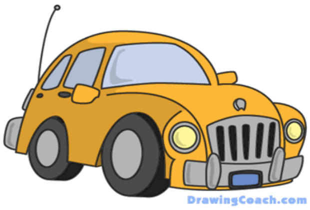
The Australian 10 year bond yield rose by 18 bps to 3.90% and the two year bond yield climbed 20 bps to 3.20%. Australian Bonds retracted over the month, with the UBS Treasury Bond Index and UBS Semi-Government Index falling 0.5% and 0.3% respectively, while the UBS Credit Index was flat for the month.

Currency – The Australian dollar continued to weaken against all of the major currencies over August. The Australian dollar declined to 0.8% relative to the US dollar, finishing the month at US $0.891. Against other currencies, the Australian dollar depreciated 2.7% relative to the Pound Sterling, 1.0% against the Yen and 0.1% relative to the Euro. On a trade weighted basis, the local currency fell 0.3% over the month.

FINANCE

Thinking of buying a new vehicle?

We remind clients that car dealers play many tricks with new car prices, trade values and in-house finance in order to spruik up their 'deal' and at the same time extract maximum profit. We are in a position to advise you on how to get the best actual deal when trading.




Planning points:

- Find your new vehicle / plant
- Negotiate a cash price
- Call us for effective financing of the deal

Find your new car, plant or equipment and then contact Suzanne for advice <u>before</u> you commence negotiations with the dealer.

SPECIAL TOPIC – Managing Income in a low interest rate environment

Contributed by Suzanne McCarthy, Financial Planning Client Services Manager

Managing Income volatility

The announcement of the RBA on Tuesday 6 August 2013 to cut cash rates to 2.50% was the 8th cut since November 2010. The consequence for investors is that as Term Deposits mature they are likely to see available rates cut by 50% compared to those available in 2010. According to an ASIC study released in 2010, 45% of all Term Deposits belong to investors aged 65 or older so rate cuts impact greatly those of retirement age.

In the aftermath of the GFC the focus has been on the preservation of capital. Investors have been happy to ride out the storm in the relative safe haven of cash and fixed interest. That has come at a cost as in a lower interest rate environment Capital risk has been replaced by income risk (the lack of return) as a key consideration for retirees.

Equity and Fixed Interest Investments

A mix of Australian Equities, International Equities, Fixed Interest managed funds as well as Term Deposits are required to address income risk. During periods of financial market turmoil such as we have been experiencing since 2008, fixed income securities (such as bonds) should outperform term deposits. This is because term deposits don't "mark to market", i.e. they aren't continually re-priced, whereas bonds are. This means that an investor in a term deposit won't benefit from the capital appreciation that a bond investor will gain in markets where fixed income investments are performing strongly. Bonds also tend to pay higher returns than term deposits, particularly when interest rates are falling.

On the negative side, Bonds also lose value

A common misconception about term deposits is that they are similar to fixed income in providing good diversification to equities in a portfolio. However, term deposits have been positively correlated with equities during four periods over the past 10 years. Even when they are negatively correlated with equities, it tends not to be as strongly as bonds. Despite a brief period from 2004- 2005 where bonds were positively correlated with equities, they have been negatively and mainly strongly negatively correlated. As such, Term Deposits provide better diversification to equities in an investor's portfolio.

In the current strengthening economical low interest rate environment, Term Deposits will not provide sufficient income and therefore a well diversified portfolio can provide the least income risk to retirees.

Planning points:

- Review investment strategy
- Review asset allocations
- Reduce / limit exposure to growth assets

BACK TO TOP

 # Acknowledgement: We wish to acknowledge Mercer Investments (Australia) Limited as the source of the information used in the preparation of this newsletter. The economic and investment analysis content of this newsletter is based on their latest published Market Valuation & Economic Review for May 2013.

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“Cashflow is critical for business growth and survival. Is your business generating the returns you require and is it maximising your wealth?”

Nash Solutions Business Services can assist you with:

Accounting, book-keeping and day to day business administration services
Taxation advice, including:
- Year-end tax planning
- CGT and business rollovers
- GST
- Negative Gearing

Small Business advice, including:
- Structuring
- Incorporation and company secretarial services
- New business start up
- Business acquisitions and valuations
- Business Sale

Tax return and BAS preparation
Superannuation, including:
- Self Managed
- Employer Superannuation Funds
- CGT rollovers on sale of business

Business analysis, including:
- Financial Analysis
- Management accounting

Business planning, including:
- Financial Analysis
- Management accounting

Financing, including:
- Review of current finance arrangements
- Equipment and motor vehicle finance

Computerised Records, including:
- Accounting related assistance generally
- MYOB software and computer support
- Banklink

Audits
- Self Managed Super Funds
- Clubs and Associations
- Companies

“Savings plans are necessary to ensure sufficient funds are available for your retirement. Will you live the comfortable retirement you dream of?”

Nash Solutions Financial Planning Services can assist you with:

Children’s education plans, including
- Imputation Bonds

Direct Share Investment
Superannuation, including:
- Individuals
- Employer group policies
- Self Managed Superannuation Funds

Personal Insurance, including:
- Life
- Total & Permanent Disablement
- Income Protection

Finance, including:
- Debt consolidation
- Housing & Commercial Loans
- Investment Loans
- Vehicle, Plant & Equipment

Wealthvue retirement and lifestyle planning analysis
- Income streams and capital drawdowns
- Centrelink benefit planning and analysis for age pension retirees

Estate succession planning
Aged Care Planning

“3 in every 4 Australians will be diagnosed with a serious illness during their working life and will spend many months off work. Will your family live in poverty?”