

March Newsletter 2013

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Welcome to our Easter Newsletter

Easter 2013 is upon us early this year but isn't it amazing that we are already here.

Interest rates have continued to fall over Christmas and throughout the early part of year, the property market has seen continued improvements in affordability in the New Year and blue chip shares have boosted superannuation returns very strongly.

Australia's largest listed companies like Telstra, Commonwealth Bank, Woolworths and a few technology companies have seen share price appreciation over 20% in a relatively short period.

In this months newsletter we are discussing a number of subjects that focus on retirement savings, risk, 2013 tax planning and a few new things we have noticed the tax office focussing on.

We encourage you to call our office for advice on any of the topic matters. We would love to hear from you and we have a network of resources available to assist you.

In the meantime indulge in chocolate in moderation and enjoy a healthy Easter break.



Easter Planning

Whilst there is still 3 months to go til the end of the financial year, we always find the earlier you start, the more effective your tax planning can be. A few basic ideas are set out below which should help maximise your refund or at least keep your tax bill to the level it should be.

Far too many of our community pay excess tax simply because of a lack of planning or not being aware of all the simple incentives the various governments introduce.

Pre-paying items that are deductible is a good strategy, particularly if you have had a good income year, received a bonus, had a windfall on a capital gain, or see your income reducing in future years. Items such as interest on a rental property loan or shares can be pre-paid. It might also even be worth considering pre-paying health insurance for 12 months or paying some of your outstanding business expenses early. Having the next 3 months to prepare to get the cash ready and then make the payment is much easier than leaving it to the last minute.

One of the few positive changes for small business from 1st July 2012 onwards is that small business will be able to **immediately write off an additional \$5000 on assets** such as new vehicles, business equipment purchased from that date, and then depreciate the remainder at 15% in that year and 30% in subsequent years.

If you are thinking of purchasing any business equipment, or replacing or buying new vehicles, give us a call to talk about how best to fund this. We have a number of

relationships with lenders that in most cases will save significant time, money and effort getting your finance completed.

Work-related vehicle deductions are one of the biggest claims made each year car, but there are a number of different formulas the tax office allows and getting your books in order makes a big difference. Having the next 3 months to prepare, you still have time to set up a log book for the 12 weeks required, so that if the actual cost method is your most tax effective in your case, you can legitimately claim this. Without planning and effective record keeping you may miss out on a significant tax differential.

The Tax Office is targeting and applying very heavy penalties on those that exceed their **superannuation contributions limits**. Superannuation is still by far the best and most tax concessional environment to save for your retirement, but there are penalties for trying to get too much in your fund in a single year, or in some cases 3 year period. Be aware just how much you are eligible to put in super and take advantage of this, but make sure that you count all contributions made. Please talk to us about what the current limits are.

Those of us that might have **health issues** realize just how expensive it is to look after our health. If you have had a difficult year and are eligible to claim, don't forget to look to make a claim on your return if your expenses exceed \$2120. Furthermore if you have upcoming expenses or treatment and are getting close to the cap, pay for the treatment pre June 30 so you can claim back some of the costs.

Looking to Upgrade your Equipment or Motor Vehicles?

One of the few positive changes for small business from 1st July 2012 onwards is that small business will be able to immediately write off up to \$5000 on vehicles and some business equipment purchased from that date, and then depreciate the remainder at 15% in that year and 30% in subsequent years.

We have a number of relationships with lenders, that we encourage clients to use, that in most cases will save significant time, money and effort getting your finance completed.

If you are thinking of purchasing any business equipment, or replacing or buying new vehicles gives us a call to talk about how best to fund this.



Tax Payer Hit: 93% Tax on Excess Super Contributions

The Australian Tax Office (ATO) is targeting Super funds, and in particular Self Managed Super Funds, looking for excess contributions.

One case we are aware of saw the tax payer hit with a 93% tax rate on the excess contribution. Arguably it would have been better to go down to the race track and lose the money than in this case making the contribution into the super account.

In this case the tax payer's employer paid a top contribution to the maximum level allowed as a salary sacrifice contribution for the 2007/08 Financial Year to a super clearing account on 27th June 2008. The tax payer's super fund did not get the contribution in time and the fund cleared the payment on the 23rd of July in the 2008/09 Financial Year. Later that year the member made additional contributions up to the limit into the 2008/09 Financial Year.

The ATO determined that excess contributions had been made for the 2008/09 Financial Year and instead of paying 15% contributions tax the members fund had to pay the 93% tax.

Superannuation is fantastic but be you need to be careful. If you are thinking of how to best manage your super, make sure you talk with us about the rules and what works and what doesn't.

Reference AAT case 2013 AATA 12



Baby Bonus Set to Drop



The baby bonus is set to drop from \$5000 to \$3000 from 1st July 2013. Under the new bill the bonus will be continued for the first child however the amount of bonus payable for second and subsequent children who come in to the family after July 1 will be reduced to \$3000.

Will we see expectant mothers that are due in early July encouraging their doctors to induce them. Let's hope not!

Pension Deeming Rates to be Reduced

One of the problems with the Federal Reserve Bank continuing to reduce interest rates is that pensioners who rely upon topping up their pension earnings with interest on the cash they have in the bank are hurting.

Pensioners with all their money in the bank have seen the returns erode significantly over the last few years as term deposits have dropped from 9% to most getting closer to 4% today.

The deeming rate as a result of this has been reduced to 2.5% from 20 March 2013 for single pensioners with financial investments below \$45,400, and couples \$75,600. The upper deeming rate on amounts above the lower deeming level has reduced from 4.5 to 4%.

Having the Right Insurance Protection is so Important



Like most accountancy firms we have a mix of sole traders, companies, partnerships and individuals we prepare returns for. One area of serious concern when preparing tax returns is the amount of self-employed clients that don't hold adequate income protection insurance.

Income protection insurance, along with a number of other forms of personal insurance, is tax deductible.

Do you know just how much of a difference death, income and trauma insurance could make in the

case of an unforeseen event? It can be a challenge to understand the need for the right insurance protection, whether it involves enhancing existing cover or taking on an additional type of cover. The latest health statistics prove the importance of ensuring you have the right type and amount of cover in place.

Heart Disease and Stroke are Still the Biggest Causes of Death in Australia

According to the latest figures from the Australian Bureau of Statistics (ABS), there were 146,932 deaths in Australia in 2011, which was 3,459 (2.4%) more than the number registered in 2010 (143,473). Since 2001 this number has increased by around 1.2% per year on average for males and 1.5% per year for females.

The **Australian Bureau of Statistics 2012 Report** revealed that heart disease and stroke have continued to remain the biggest causes of death in Australia, accounting for almost 34,000 fatalities in 2010.

The third biggest cause of death is Dementia and Alzheimer's disease with 9,000 fatalities in 2010, which has basically doubled from 2005 and increased its ranking from 5th.

The top 10 leading causes of death accounted for 52.2% of all deaths registered in 2010, and the top 20 leading causes accounted for 67.3%.

2.1 LEADING CAUSES OF DEATH^(a), Australia - Selected years - 2001, 2005, 2010^(b)

Cause of death and ICD code	2001 no.	Rank	2005 no.	Rank	2010 no.	Rank
Ischaemic heart diseases (I20-I25)	26 234	1	23 570	1	21 708	1
Cerebrovascular diseases (I60-I69)	12 146	2	11 513	2	11 204	2
Dementia and Alzheimer disease (F01, F03, G30)	3 740	6	4 653	5	9 003	3
Trachea, bronchus and lung cancer (C33-C34)	7 038	3	7 399	3	8 099	4
Chronic lower respiratory diseases (J40-J47)	5 916	4	5 428	4	6 122	5
Colon sigmoid, rectum and anus cancer (C18-C21)	4 745	5	4 171	6	4 056	6
Diabetes (E10-E14)	3 078	9	3 529	8	3 945	7
Blood and lymph cancer (including leukaemia) (C81-C96)	3 660	7	3 614	7	3 933	8
Heart failure (I50-I51)	3 128	8	2 739	12	3 468	9
Diseases of the urinary system (N00-N19)	2 741	10	2 948	10	3 315	10
Prostate Cancer (C61)	2 711	11	2 946	11	3 235	11
Breast cancer (C50)	2 612	13	2 736	13	2 864	12
Pancreatic cancer (C25)	1 809	16	2 018	15	2 434	13
Influenza and pneumonia (J09-J18)	2 702	12	3 034	9	2 364	14
Intentional self-harm (X60-X84)(c)	2 454	14	2 101	14	2 359	15
Skin cancers (C43-C44)	1 458	17	1 678	16	1 897	16
Hypertensive diseases (I10-I15)	1 223	19	1 445	18	1 734	17
Accidental falls (W00-W19)	634	38	996	28	1 648	18
Cirrhosis and other diseases of liver (K70-K77)	1 196	21	1 427	19	1 592	19
Cardiac arrhythmias (I47-I49)	975	24	1 265	20	1 535	20



The Bureau of Infrastructure, Transport and Regional Economics, 2011 also released

a report showing that in the 12 months to December 2011 there were 1,292 deaths linked with fatal car accidents.

With the number of deaths in Australia continuing to increase, most of which are caused by heart disease and stroke which occur quite suddenly, life cover is a critical component of the protection equation.

Accidents Do Happen - 420,000 Injury Cases Required Hospitalisation in 2011

The 2010–11 report released by the Australian Institute of Health and Welfare (AIHW), revealed that there were approximately 420,000 injury cases requiring hospitalization in Australia during the year. The leading cause of hospitalized injury was falls (38 per cent), followed by unintentional transport-related incidents (13 per cent). 32 per cent of falls were experienced by adults aged 45 to 64, with the Mean Length of Stay (MLOS) at 5.8 days.

The ABS Work-Related Injuries 2009/2010 report revealed that of the 640,700 people who experienced a work-related injury in the same period, only 61 per cent received some sort of financial assistance in the form of workers compensation. And 69 per cent of employees with paid leave entitlements received financial assistance compared to just 50 per cent of those employees with no paid leave entitlements.

Number of Cancer Cases up but so are Survival Rates

Medical advances have meant that our chances of surviving traumatic events are much better than they were in the past.

You may recall in one of our articles late last year we referred to research from the AIHW that showed cancer survival rates were on the rise from 47 per cent in 1982-1987 to 66 per cent in 2006-2010. Their latest report, **Cancer in Australia: an overview, 2012** shows that the number of new cancer cases diagnosed in Australia each year almost doubled between 1991 and 2009,

from 66,000 to 114,000. This number was expected to rise to around 121,000 in 2012.

However the report also revealed that when looking at all cancers combined, the age-standardized mortality rate decreased by 17 per cent from 210 per 100,000 people to 174 per 100,000 people between 1991 and 2010.

Insurers are Paying More Claims

A common objection from prospective clients is that 'insurers never pay claims'. The truth is of course that Australian insurers continue to payout hundreds of millions of dollars in claims every year.

According to the Risk Store reports (2009-2011), there has been an increase across the last three years, in lump sum claims and the total dollar amount paid. In fact a total of \$443,736,522 (2,531 claims) was paid out in trauma claims in 2010 which increased to \$538,720,039 (3,169 claims) in 2011.

Death claims increased from 16,173 (\$1,629,150,468) to 18,197 (\$1,806,688,603). And Income Protection claims has remained steady with 37,093 claims in 2010 (\$1,033,831,983) and 34,056 claims (\$1,000,457,827) in 2011.

Steps to Protect Yourself

The types of events that insurance covers are often unforeseeable and the statistics speak for themselves. When talking with us at your next tax review feel free to ask our office for help in this important area of your finances. We have access to a number of insurers and recognize which policies are most tax effective and protect you in a cost effective manner.

Those with existing trauma or income insurance policies should do a review so that if you ever need to claim you have access to the best available treatment and to allow you the time off you need to recover.

Doing a cost benefit analysis of what each insurance policy could mean and what value they would provide if you ever need them might be the best 30 minutes we spend together this year.

Insurance: A Good News Story

In discussing insurance we often hear the saying 'insurance companies try not to pay claims'.



A recent experience we are aware of is that of one of our fellow National Tax and Accountants Association members. The member asked a referral partner of ours to review their \$1million trauma insurance policy as the premiums had been increasing with age and CPI.

The adviser did an analysis of the client and discovered that 7 years ago the member had a cancer that would prevent him getting new insurance elsewhere. He questioned the client why he did not make a claim on that policy.

The client had only 6 weeks off work and made a full recovery from the cancer removal.

MLC Insurance despite not receiving any notification paid out the claim for \$1million plus interest over 7 years and repaid all the insurance premiums over the last 7 years. They also, under the policy, offered continued Life Insurance Cover.

We praise MLC and suggest if clients want to review their own policies to ensure the Premium, Policy and Conditions are appropriate, they should do so.