2011
CLIENT UPDATE
september tax insight

CARBON TAX TO COMMENCE ON 1 JULY 2012

THE PRIME MINISTER HAS ANNOUNCED DETAILS OF THE GOVERNMENT'S PLANS TO PUT A PRICE ON CARBON.

The plan, to commence on 1 July 2012, proposes to set a price of $23 for each tonne of carbon pollution released into the atmosphere by Australia's biggest polluters. It is proposed that around 500 businesses will be required to pay for their pollution under the carbon pricing mechanism. The Prime Minister also announced tax cuts to assist households and support measures for businesses to assist them in adapting to the new carbon tax.

Although the carbon tax scheme will not commence until next year, businesses should consider how they may be affected both directly and indirectly by the scheme and whether they are able to access some of the compensation and support measures announced as part of the scheme. Please contact our office for any assistance.

NEW RESTRICTIONS ON SMSF INVESTMENT IN ARTWORKS

New regulations have been made to prevent self-managed superannuation fund (SMSF) trustees from gaining current day benefit from an investment in collectables and other personal use assets, for example artwork, jewellery, antiques, coins and stamps, wine or spirits and motor vehicles. The regulations are designed to ensure such investments are made for genuine retirement income purposes only.

TIP

The new regulations commenced on 1 July 2011, however, there is a five-year transitional period for assets that were held by an SMSF as at 30 June 2011. Please contact our office if you have any questions.

INCOME TEST FOR PRIVATE HEALTH INSURANCE REBATE

The Government is again attempting to pass legislation to give effect to the 2009–2010 Federal Budget announcement to income test the 30% private health insurance rebate by introducing three new "Private Health Insurance Incentive Tiers". The changes propose to reduce the amount of private health insurance rebate an eligible person with a complying private health insurance policy is entitled to when that person has income for surcharge purposes above the relevant Medicare levy surcharge threshold. If enacted, the changes are proposed to apply from 1 January 2012.

The income thresholds which would trigger application of the proposed changes need to be carefully noted. Please contact our office for any assistance.

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NO GST ON DAMAGES PAID FOR LOST SCAFFOLDING

A taxpayer has been successful before the Federal Court in obtaining orders that there is no GST payable on damages it recovered when it lost its scaffolding to other parties. The taxpayer was in the business of hiring out its scaffolding in the building and construction industry. However, after various events, the scaffolding became intermingled with scaffolding belonging to another company. The taxpayer sued and won damages for the loss of its scaffolding. However, the Commissioner claimed GST was payable as a result of the ownership of the scaffolding vesting in the defendant. The Federal Court though disagreed and held the taxpayer in the circumstances did not make a "taxable supply" under the GST law. (Note the Commissioner has appealed against the decision to the Full Federal Court.)

FBT

ATO TARGETS FBT AVOIDANCE USING EMPLOYEE SHARE TRUSTS

The ATO has warned taxpayers of an arrangement whereby effective after-tax benefits are provided to employees without a corresponding fringe benefits tax (FBT) liability to the employer. Under the arrangement, employees acquire share units in an employee share trust, which is funded by a loan from the trustee, which is in turn repaid by the employer from amounts salary sacrificed by the employee; however, the employer does not include the taxable value of the benefits provided as part of its FBT liability. The ATO says failure to include the benefit may trigger specific "anti-avoidance" rules under the FBT law.

Tax discount on interest income

The Government has released details on how it will implement its 2010–2011 Federal Budget proposal to provide individuals with a 50% tax discount on interest income from 1 July 2012. Under the proposal, the discount will apply on up to $500 of interest earned on deposits held with any bank, building society or credit union, as well as bonds, debentures or annuity products. The Government proposes to increase the $500 amount to $1,000 from 1 July 2013 onwards.

Some of the technical details of the Government's proposed tax discount on interest income are complex. Please contact our office if you have any questions.

DIVISION 7A BENCHMARK INTEREST RATE

The ATO has advised that, for the income year that commenced on 1 July 2011, the benchmark interest rate to be used in calculating the interest component on the repayment of a private company loan received by a shareholder (or the associate of the shareholder):

7.8%

REASONABLE TRAVEL AND MEAL ALLOWANCE AMOUNTS

The ATO has announced the amounts the Commissioner considers are reasonable for the 2011–2012 income year in relation to claims made for:

overtime meal allowance expenses; domestic travel allowance expenses; travel allowance expenses for employee truck drivers; and overseas travel allowance expenses.

CAR DEPRECIATION LIMIT AND LUXURY CAR TAX THRESHOLD

The ATO has released the following limits and thresholds for the 2011–2012 income year.

CAR DEPRECIATION LIMIT & LUXURY CAR TAX THRESHOLD **$57,466**

FUEL EFFICIENT CAR LIMIT **$75,375**

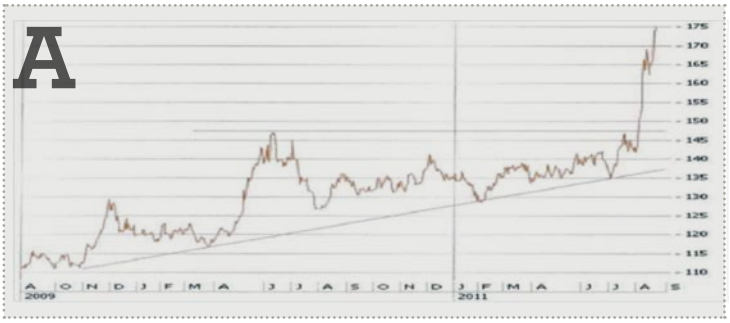
Global Markets Overview

BY SPECIALIST COLUMNIST:
NIV DAGAN
SALES TRADER

WHAT A FEW WEEKS IT HAS BEEN ON GLOBAL MARKETS.

Talks of a "double dip" recession in the US, America losing its AAA credit rating, European leaders trying to salvage Greece from default and global central banks intervening in their own currency market to devalue their currency (i.e. Swiss central bank and Japan) – who would have thought that the world will come to this?

There is now talk in the market that European banks have stopped lending to each other... German banks don't want to lend to French banks... French Banks don't want to lend to Greek Banks... and the only bank they are doing business with is with the European Central Bank (ECB).



THIS IS NOT GOOD.

To avoid this problem, the ECB is trying to increase liquidity in the market and are buying Eurobonds... this is positive, but to avoid a "European Credit Crunch", it's all about confidence and sentiment. These are the two parameters that drive markets.

To magnify the issue, Germany's GDP for last quarter came out two nights ago at 0.1% - indicating that Europe's largest economy, or the 4th largest global economy in the world is stalling.

HOWEVER, THINGS DON'T END THERE.

China is faced with high inflation at 6.5% and is purposely increasing interest rates and making it more difficult for lenders to source funds. Chinese stocks are now the cheapest they have been since 2008 – questions are now being raised whether the commodities boom will end?

Here in Australia, we have been hit by the proposed mining and carbon tax, the high AUD is forcing many companies to close factories and move their operations offshore (i.e. BlueScope Steel, Holden), unemployment has recently increased to 5.1% from 4.9% and the property market is languishing as the consumer is facing an uphill battle to save.

This has led to overseas investors and fund managers to perceive Australia as "risky" and hence, are demanding a greater "risk premium" to invest in our shores.

The only sector that is benefiting from this global turmoil is gold, however, Australian gold stocks are still falling.

THIS MAKES NO SENSE AT ALL.

Two months ago, companies were selling their gold to overseas mills, central banks and investors at $1,400/oz. Now they are selling the same commodity at $1,900/oz and their stock prices have fallen in value?

Their marginal cost of production has remained unchanged and accordingly, their margin has increased significantly. Yes the high AUD is to blame, however, gold in AUD terms has also increased significantly (see Chart A and on this basis – their stock prices should rise.

In the US, reporting season has just passed and resulted in over 80.0% of companies reporting earnings that exceeded analyst forecasts.

In Australia, we are in the midst of our reporting season and we are seeing a number of companies downgrade expectations on the back of a stronger AUD (CSL, BBG, NCM), higher costs (BSL, AMP) and cautious outlook statements.

Earnings delivery and sustainable dividend yields are key underpinnings to share price returns.

Although global equities look cheap on forward earnings, we need to see a low in the revisions ratio (i.e. up estimates/down estimates) to have the confidence to act (see chart below)

Ten year notes are higher now than they have been during the GFC, indicating that investors are selling underlying assets (such as equities, commodities, bonds) and are piling into fixed income and cash -

SO WHERE TO FROM HERE?

In my opinion, directional trading in this market is nearly impossible and it is all about market timing – but getting the timing right in such a volatile market is extremely difficult.

Accordingly, non directional trading (i.e. holding a market neutral portfolio), is the way to go.

IN TERMS OF YOUR BLUE CHIP SHARES AND YOUR SELF MANAGED SUPER FUND – THIS IS NOT THE TIME TO PANIC AND JOIN THE OTHERS. STAY CALM AND LEVEL HEADED AND ENSURE THAT YOUR DECISIONS ARE NOT DRIVEN BY EMOTIONS AND IRRATIONALITY.