



Welcome...

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In this issue, we'll look at modifications with service entities, primarily Phillips Case where mark up rates are no longer accepted and invite you to a free seminar we are running as part of our preparations for the new ruling and guidelines. Also insight to deductions for transport between workplaces, the payment frequency for paying your employees superannuation contribution, the new land tax for unit trusts and lastly, reducing child care costs by 30%.

If you require any further information or assistance on any of the issues covered please contact us.

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Service Entity Arrangements – ATO Stand Firm

The Australian Taxation Office (ATO) has released its final Service Entity Arrangements ruling (TR 2006/02) and associated guidelines.

Despite heavy lobbying, the ATO has stood firm on its toughened view on what is deemed acceptable practice in regards to Service Entity Arrangements.

Some key points of the final ruling are:

- Phillips Case previously accepted 'mark up' rates are no longer acceptable.
- Changes to ATO accepted views from the draft ruling.
- Service Entities have to be compliant from the 2007 financial year.
- High risk cases are currently being subject to audit.
- Documentation of Service Entity Arrangements is paramount.

Possible denial of tax deductions

If a service entity is non compliant, the ATO may deny the dentist a tax deduction for service fees paid and still treat the service fees received by the service entity as assessable income. Effectively this means that additional tax may be assessed at 48.5% on the service fees paid.

A review of your Service Entity Arrangement is a must!

We recommend that the operations of every Service Entity be reviewed to ensure that all facets of the toughened ATO views are complied with.



To assist you we will be holding a seminar (invitation attached) to review the ATO ruling and address key practical issues such as:

- What documentation is required to comply with the ATO guidelines?;
- Service Entity Agreements;
- What costs should now be paid from the practice entity instead of the Service Entity?;
- What is an acceptable method to calculate service fees?;
- What charges rates are acceptable on staffing and other costs?;
- Do I need to restructure my Service Entity?; and
- ATO audit risk.

At the seminar we will also be offering a Service Entity review package which will include practical advice specific to your business.

You may have already seen various articles on the final Service Entity ruling and have some questions and concerns which you would like answered. The seminar will be a great avenue for you to raise your issues in an open forum and discuss this important topic amongst your peers.

Serving it up again – deduction for transport between workplaces.



Specific travel expenses can again be claimed between two different workplaces following recent tax changes.

A court decision in 2001 surprisingly overturned the Australian Taxation Office view that travel between two workplaces was allowable. The rules have again been relaxed with amending legislation – approved on 29th June 2004, but applicable from 1st July 2001.

The new provision provides individual taxpayers with a specific income tax deduction for transport expenses where the following conditions are met:

- The individual incurs transport expenses in travelling directly between workplaces;
- The purpose of the travel between workplaces is to earn assessable income at the second workplace;
- at the time of the travel between workplaces the income earning activities at the first workplace had not permanently ceased; and
- the individual does not reside at either place.

A workplace includes:

- a place where an individual earns assessable income as an employee;

- a place where an individual earns assessable income in a capacity other than as an employee; and
- a place where an individual earns assessable income by carrying on a business or business activities.

A deduction can be claimed for transport expenses incurred in travelling directly between:

- two places of employment;
- two places of business; and
- a place of employment and a place of business.



As a result of a decision of the High Court of Australia on 28 September 2005 concerning the taxing of unit trusts under the *Victorian Land Tax Act 1958*, unit trusts in NSW are now being assessed as ‘special trusts’ under section 3A of the *NSW Land Tax Management Act, 1956*.

Land Tax: New Unit Trust Rulings

A trust is a “special trust” for the purposes of this act if:

- The trust property includes land;
- The trustee of the trust is the owner of the legal estate of the land; and
- The trust is not a fixed trust.

The High Court ruled that the holders of the units in the Unit Trusts are not the owners of the land held by the trust, which therefore means that most Unit Trusts will be taxed as special trusts in 2006 under NSW Land Tax Legislation. This change will not affect

assessments issued prior to the new ruling. As a result the Unit Trusts will be assessed at 1.7 per cent on the combined taxable value of the land with no entitlement to the \$352,000 tax free threshold.

However, if the trust deed provides that the unit holders do have an ownership interest in the land held by the trust, there is the opportunity to object to the assessment. Should you wish to pursue this course of action we recommend you seek legal advice on the matter.

Superannuation Guarantee

Employers must pay superannuation contributions on behalf of all their eligible employees. This compulsory contribution is called the superannuation guarantee (SG).



Employers are required to contribute a minimum of 9% of an employee's weekly ordinary times earnings to a complying superannuation fund. Any hours spent working overtime do not get included in the SG calculation.

SG contributions need to be made at least four times a year, within 28 days after the end of each quarter, as shown in the table below. You can pay contributions on a more regular basis than the quarterly requirement. For example, you can pay fortnightly or monthly if you choose, as long as the total amount you owe for the quarter is paid by the quarterly cut-off dates (Table 1).

Timing of deductions

If contributions are paid after 30 June in a particular year but before the 28 July superannuation guarantee contribution deadline, you cannot claim the contribution as a tax deduction until the end of the next financial year. The contribution needs to be paid on or before 30 June to be claimed as a deduction in the current year.

Maximum superannuation contribution base

The maximum contribution base is a maximum limit on the amount of superannuation contributions employers are expected to pay for any employee, subject to annual indexation (Table 2).

Table 1

Quarter	Quarterly cut-off date
Quarter 1 1 July – 30 September	28 October
Quarter 2 1 October – 31 December	28 January
Quarter 3 1 January – 31 March	28 April
Quarter 4 1 April – 30 June	28 July

Table 2

Income Year	Per Quarter
2005-06	\$33,720
2004-05	\$32,180



Nicole Young

Nicole joined Cutcher & Neale in July 2004. Nicole is a member of the Accounting & Taxation Services Division and has over four years experience working in Taxation. Nicole completed her Bachelor of Commerce Degree in 2004; and now is studying for her CPA.



Katie Healey

Katie joined Cutcher & Neale in April 2002. Katie is a member of the Accounting & Taxation Services Division and has over five years experience in Taxation. She has recently completed her Bachelor of Commerce Degree and Certificates II and III in Business Administration.

Reducing child care costs by 30%

The introduction of the Federal Government's new 30% child care rebate from 1 July 2006 provides families with the opportunity to receive a tax rebate for 30% of out-of-pocket approved child care expenses. The rebate is claimed one year in arrears so parents can claim 2004-05 child care expenses in their 2005-06 income tax returns. It is not means tested and you are able to claim up to \$4,000 of tax rebate per child per year.

You are still able to claim the Child Care Benefit (CCB) through the Family Assistance Office (FAO); however this amount is subtracted from child care expenses to arrive at your out-of-pocket expenses which are eligible for the rebate. For example, Jeremy incurred \$7,056 of approved child care expenses for his daughter Chloe. Below is a calculation of the tax rebate that Jeremy can claim:

Approved child care expenses	\$7,056
Less: Child Care Benefit Received from FAO	(\$1,400)
Equals: Out of Pocket Expenses	\$5,656
30% Tax Rebate (Out of Pocket Expenses x 30%)	\$1,697

In this example, Jeremy would receive a tax rebate of \$1,697 as it is below the \$4,000 limit per child. In order to claim the 30% child care tax rebate, you need to lodge a CCB lump sum claim with the FAO (all eligible families can claim CCB regardless of income). Also keep your end of year statement sent by the FAO, your receipts and records of your child care expenses.

Prefer to receive your newsletter by email?

If you would prefer to receive future issues via email, please email your contact details and preferred email address to dentalwealth@cutcher.com.au

We would also love to hear from you if you have suggestions on what you would like to read in future issues.



Diary Dates

June 2006

30 Last date for tax deduction for payment of superannuation guarantee levy for 2006.

July 2006

7 Payroll tax monthly instalment.
21 IAS/BAS monthly activity statements due for lodgement and payment.
21 Payroll tax annual reconciliation.

August 2006

7 Payroll tax monthly instalment.
21 PAYG summaries.

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