



Welcome...

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Partner

In this issue we reveal six tips to help motivate the work environment, we look at the Future Fund as it embarks on its acquisition trail, the commonly asked question – leave entitlements in payroll systems, opportunities to eliminate your loan account plus explore the great super benefits and much more.

We hope you enjoy our September edition.

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Get motivated!

6 tips to help motivate yourself and your staff

How funny is “The Office”? If watching it reminds you a little too much of your work environment, perhaps motivating yourself and your staff should be more than the occasional ‘casual Friday’. Building a positive environment should be a sustained, personalised effort that ensures you and your staff are equipped to perform at your peak.

Consolidating your work culture does not have to be an expensive or time-consuming task, but rather is an extension of your existing business practices. Motivating staff is all about perfecting the art of communication. Below are some tips on how to increase business productivity by increasing motivation at work.

One of the keys to motivation is setting manageable goals. Yes, pull out your business plan, and write down three things that you would like your business to achieve in the next three, six and twelve months. Set the wheels in motion by breaking up each goal into manageable daily tasks and sticking to them until completion.

Here are six ways to get your staff motivated.

1. Listen to their wants and needs

One of the best ways to increase motivation is to give all your staff a voice. Often, staff know the workings of a business better than owners – they work in the business, as opposed to on it. Asking staff for input will not only empower them to induce change, but will also increase your business’ efficiency.

2. Encourage a good work-life balance

Even though work forms a substantial part

of life, remember that keeping a balance is they key to staying motivated. Giving staff flexibility in ways such as flexitime and working from home shows staff that you are prepared to trust them, and are committed to their well being.

3. Educate and train yourself and your staff

Ask yourself and your staff: ‘Are there any skills which would allow you to complete your job better? If so, research possible education or training courses that will equip you or them with such skills.

4. Keep in contact with your staff and colleagues

Taking the time to make personal contact with your staff and colleagues shows that you consider them to be important. Dedicate ‘one-on-one’ time to staff on a regular basis to discuss any problems or issues they may be having or track personal goals.

5. Provide incentives that relate to people individually

Companies tend to be good at marketing to their customers, but are less good at marketing their business proposition to their own staff. What incentives do you offer your staff? Are they tailored to suit each individual? Not everyone is motivated by the same things, so find out what kind of enticements people want.

6. Reward good work

Taking the time to acknowledge exceptional work is one of the ways you can inspire others to achieve.



The Future Fund

What does it mean to investment markets?

The Future Fund was established to meet the unfunded superannuation liabilities of the Commonwealth Government by 2020. Although the investment mandate is still unclear, the funds are to be administered by the Future Fund Board of Guardians, with a target rate of return of 7.50% per annum. It is understood the fund is exempt from tax, and can claim a refund of imputation credits.

The approximate balance in the Future Fund at 30 June 2007 was \$60.50 billion. Assuming a 7.50% rate of return and the transfer of \$6.50 billion from the second Telstra 3 instalment, the total assets in the fund are expected to be approximately \$72 billion, by 30 June 2008 and by 2020, \$171 billion.

There is no doubt the introduction of compulsory superannuation and the implementation of tax imputation of franking credits have been enormous drivers of the Australian equity market for almost 20 years.

However, the implementation of the Future Fund, will add another unprecedented level of liquidity to Australian equities. This is particularly pertinent considering the Australian sharemarket is shrinking as a result of buy backs and private equity takeovers.

Assuming the Future Fund adopts a 35% allocation to Australian equities out of its \$72 billion portfolio, it will have the capability to invest \$25 billion in Australian shares by 30 June 2008, rising to \$60 billion by 2020.

The Future Fund will therefore become the largest owner of Australian shares and become Australia's biggest Fund Manager. As an example, should the Future Fund wish to take an index weighted position in BHP, it would need to buy approximately 65 million shares.

It will be interesting to see the effect of the Future Fund as it embarks on its acquisition trail. The markets are beginning to see a mystery player buying top 20 shares and it is believed to be the Future Fund.

Together with the continued inflows of superannuation monies and the attraction of the imputation credits, the Future Fund will no doubt prove to be another powerful driver of demand for Australian equities.

How will you communicate your payroll system data?



Accrue or not to accrue, that is the question a number of clients ask when discussing about leave entitlements in payroll systems.

It is always recommended that you use your payroll systems leave accrual functionality to keep track of your employees leave entitlement balances for Annual leave, Personal leave and Long Service leave.

Many clients who use their payroll system to accrue employee leave entitlements often give up in frustration as their payroll system often reports incorrect balances hence they lose confidence in the

system to accurately report each employees leave balance. A properly configured leave accrual system will report an employees correct leave balance. There are however a number of key elements when setting up leave accrual systems which you need to consider. The key elements of an accurately configured leave entitlement system are:

- ensure the underlying leave accrual calculations are correct;
- only include ordinary time wage types when configuring the system to calculate leave;

- ensure the opening balances are correct when commencing a leave accrual system;
- leave accrual entitlements are linked to the correct wage type.

Cutcher & Neale's Business Software and System Solutions division have extensive knowledge in configuring leave accrual systems in MYOB, QuickBooks, Quicken Payroll Premier, Winpay and HR3 Pay. The Division can also assess the leave accrual configuration of most other systems. For further information please contact Michael Graham to discuss your leave accrual needs.

Payroll Tax Changes

The New South Wales and Victorian governments have agreed to rewrite and harmonise their Payroll Tax Acts. From 1 July 2007 the new Payroll Tax Act 2007 will replace existing legislation in both states.

Some key changes in NSW to be aware of are:

- A single gross-up factor for calculating the value of fringe benefits subject to payroll tax for employers.
- Removal of the contractor exemption for contracts of \$800 000 or more.
- Removal of the provision relating to employment agency contracts when the client is not required to register for NSW payroll tax.
- Introduction of an exemption from payroll tax for adoption leave and maternity leave payments.
- From 1 July 2008, the NSW Government proposes to introduce a rebate scheme to replace the exemption on apprentice and trainee wages which finishes 30 June 2008.

- The grouping test for common employees is more encompassing (removal of solely of mainly condition). Where an employee performs duties for or in connection with another business you may be grouped.
- For grouped employers you will need to appoint a Designated Group Employer who will solely claim the benefit of the tax-free threshold.
- The Commissioner now has discretion to exclude a member from a group (except for subsidiary/parent company relationships) based on an independence test.

We note the payroll tax threshold and rate remain the same at \$600,000 and 6% respectively.

Should you have any questions in relation to Payroll Tax legislation changes please contact Cutcher & Neale Business Services Division.



Division 7A Loans

Opportunities to eliminate your loan account

With further tax cuts announced in the 2007 Federal Budget there may be opportunities to tax effectively repay your Division 7A loan balance quicker or even eliminate the loan completely!

Essentially the strategy involves taking advantage of the reduction in tax rates and increasing the repayments on the loan via increased dividends.

Loan account transactions with shareholders, from 4 December 1997 must be paid out by 30 June or structured as 'excluded loans' to avoid the punishments set out in Division 7A. In order for a loan to be considered an excluded loan there must be a written loan agreement, interest must be charged at the specified benchmark interest rate (currently 8.05%) and minimum repayments must be made on the loan to satisfy the maximum allowable repayment time (7 or 25 years).

Generally, the minimum repayment required on a Division 7A loan is made by declaring a franked dividend to the shareholder. The dividend is assessable to the shareholder but the franking credits attached to the dividend offset personal tax payable on the dividend.

Additional repayments by way of increased dividends are able to be made reducing interest and the term of the loan.

Let's look at an example to illustrate how the strategy works. Bob has a loan balance owing to his company of \$100,000 drawn in the 2007 year and has entered a loan agreement over seven years. His minimum yearly repayment is \$19,240 and he will make the repayment via dividends. In addition he receives a salary of \$50,000 pa from the company and has no other income.

Bob adopts the additional repayment strategy and takes a \$50,000 dividend and applies this against the loan for the 2008 year ie an additional \$30,760 dividend is paid.

The 2008 year taxation consequences for Bob can be summarised as follows:

	Scenario 1 No additional dividend	Scenario 2 Additional dividend paid
Taxable Income	\$77,486	\$121,429
Tax Payable	\$18,094	\$ 35,671
Less Franking Credits	\$ 8,246	\$ 21,429
Net Tax Payable	\$ 9,849	\$ 14,243
Average Tax Rate	23.35%	29.38%
Average Net Tax Rate*	12.71%	11.73%

* After franking credits deducted

The increase in net tax payable for Bob is \$4,394. However, by adopting this strategy just for the 2008 year his loan account has been decreased by an additional \$30,760, saving him a total of \$15,360 in interest over the life of the loan and cuts 2 years off the loan term.

Division 7A Amendments & Amnesty A win for taxpayers

The ATO introduced Division 7A legislation in an attempt to prevent private companies from making tax-free distributions to shareholders. Since inception in 1997, tax professionals have argued that the legislation was inflexible in its application, triggered unintended outcomes and penalised taxpayers unfairly.

Recent amendments were enacted to the Division 7A legislation (summarised below) which has treated many of the known problems and improves the position of taxpayers in many situations.

- Reduce the double-penalty nature of Division 7A by removing the automatic debiting of the company's franking account when a deemed dividend arises;
- soften the penalty where a minimum loan repayment is not made by deeming only the unpaid amount a deemed dividend as compared to the remaining loan balance;
- allow for later dividends to be offset against deemed dividends to an associate of the shareholder, to be non assessable to the shareholder;
- allow for deemed dividends that arise because of a family law obligation to be franked;
- allow for an unsecured loan to be converted to a loan secured by a mortgage over real property so a term longer than seven years can apply (up to 25 years);
- clarify loans involving interposed entities; and
- provide a discretion to the Commissioner to disregard deemed dividends (or allow them to be franked) where they have been triggered by honest mistakes or omissions by taxpayers.

Following on from this the ATO have released Practice Statement (PSLA 2007/20) outlining a retrospective amnesty in relation to Division 7A breaches between 1 July 2001 and 30 June 2007 based on the following conditions being satisfied:

- failure to comply with the relevant provisions was the result of an honest mistake or inadvertent omission by the taxpayer;
- 'corrective action' is taken prior to 30 June 2008;
- the taxpayer has lodged all income tax returns for the above-mentioned periods.

On the basis the above conditions are met, the taxpayer will not need to apply to the Commissioner to exercise his discretion to disregard a deemed dividend.

If you have concerns over your compliance with the Division 7A legislation or are aware of a breach and wish take advantage of the amnesty offer, please contact Cutcher & Neale for assistance.



Spilling the Beans

Business Digest asked Homeland Security Services to share the company's success story.



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Q Tell us a little bit about Homeland Security

A Since 1946, Homeland Security Services has provided security services throughout Australia. Homeland Security Services has grown from a small business operating in the Sydney CBD which provided security and investigation services to a national organisation providing security, emergency response, loss prevention, risk management and training services. The Company has always been an Australian, family owned business that operated with a reputation based on quality. Although our ancestors operated by "horse and cart" the Company's principals of management have been handed down to influence our current operations.

Q What do you see as the major issues for security in the next five to ten years?

A Terrorism is one of the major issues for security and will be for some time to come. Just ensuring that people have a complete understanding of the risk and that people are properly trained with the necessary skills to prevent and combat terrorism will be a serious issue.

Q From the lessons you have learnt in business, is there any advice you can part to other business?

A Always ensure that your finances and accounts are properly maintained and controlled and that you have a good understanding of what is required. Make sure that you pay all taxes and outstanding debts and operate your business within all set budgets.

Q What changes do you think are necessary both personally and professionally to equip Managers and staff to maintain a high level of security service to a vast customer base.

A Develop quality systems and controls to ensure that company processes are standardised. That will also assist in ensuring a high level is maintained however it is also important to provide professional development for staff and personnel to maintain a leading edge. It is also important to conduct research in security to look at new ways and methods and stay in front of the industry. Good communications with managers and clients is always necessary and assisting the client with new initiatives is beneficial.



Super gets simple – enjoy the benefits!

With the implementation of the Government's Simpler Super reforms in March 2007, many changes have occurred within the superannuation landscape in which great benefits can be derived. These are explored below.

- Abolition of Reasonable Benefit Limits ("RBL's") – From 1 July 2007, RBL's have been abolished. A person's RBL was the level of monies a person could accrue within the superannuation environment and receive concessional tax treatment (for the 2007 financial year the pension RBL was \$1,356,291). Now there is no limit to what a person can accrue in superannuation!
- Tax Free Benefits For Over 60's – From 1 July 2007 member's can draw from their superannuation balances tax free, whether as lump sum or pension. This lends itself to great tax planning opportunities through the use of salary sacrificing strategies.
- A New Simplified Pension – The Account Based Pension has been introduced by the Government and it is by far the easiest pension to administer. A minimum pension is required to be drawn annually and this is simply a percentage of the pension account based on the members age at the start of the financial year. The minimum drawdown percentages are low which allows capital preservation within the Fund.
- Transition To Retirement Pensions ("TRIP") – The TRIP remains one of the best strategies for creation of personal tax savings and to increase accumulated superannuation wealth. The changes to superannuation have made the TRIP strategy one that every person over preservation age should explore. This is due to the conversion of Pre July 1983 component to exempt component meaning a greater tax free portion (the TRIP is still taxable for the 55-59 year olds); those that were not able to contribute up to their age base limit may now do so; members over age 60 will now not be taxable on the pension payment.
- Tax Deduction For Self Employed – From 1 July 2007, self employed persons will be able to claim 100% of the contributions they make to superannuation rather than the \$5,000 plus 75% of the excess up to the age base limit.
- Government Co-Contribution – From 1 July 2007 self employed persons will finally be able to make personal superannuation contributions that will be eligible for the Government Co-contribution.

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Diary Dates

September 2007

- 21 BAS August monthly activity statements due for lodgement and payment.
- 30 PAYG withholding payment summary annual report due for lodgement.

October 2007

- 21 BAS September monthly activity statements due for lodgement and payment.
- 21 Annual PAYG instalment due for payment.
- 28 September quarterly instalment notice due for payment.
- 31 Due date for income tax returns – all entities where one or more prior year income tax returns were outstanding as at 30 June 2007.

November 2007

- 11 IAS/BAS September quarterly activity statements due for lodgement and payment (paper).
- 21 BAS October monthly activity statements due for lodgement and payment.
- 25 IAS/BAS September quarterly activity statements due for lodgement and payment (electronic).

Did you know?



Fringe Benefits Tax (FBT)

The following developments for FBT apply from 1 July 2007 (ie. the 2008 FBT Year)

- The 'minor benefits exemption' threshold for Fringe Benefits Tax (FBT) purposes will increase from \$100 to \$300.
- Increase in the reportable fringe benefits amount threshold from \$1,000 to \$2,000.

Revised size tests now apply

Two of the three thresholds at which audited financial reports are required to be prepared have increased:

- from \$10m to \$25m in revenue, and
- from \$5m to \$12.5m in assets

The threshold for the number of employees has remained at 50. Passing two of the three tests is still required with the new thresholds applicable for 30 June 2006 year ends.

Personal income tax rates

Tax Rates for Residents for 2006/07			Tax Rates for Residents for 2007/08		
Taxable Income	Tax on Col 1	% on excess	Taxable Income	Tax on Col 1	% on excess
\$6,000	\$0	15%	\$6,000	\$0	15%
\$25,000	\$2,850	30%	\$30,000	\$3,600	30%
\$75,000	\$17,850	40%	\$75,000	\$17,100	40%
\$150,000	\$47,850	45%	\$150,000	\$47,100	45%

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