



# The Financial Paracetamol

Your Guide to Financial Health

PREVENTION • SYMPTOMS • CAUSES • TREATMENT

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## Does your Service Entity Arrangement comply with revised ATO guidelines?

Service entities are used by professionals to provide office space, labour hire, clerical, administrative services, plant & equipment and other services. The service entity charges the practice a fee which is intended to be tax deductible.

The widespread use of service entities as a means of income splitting and asset protection by professional practices is now under closer examination by the ATO.

Recently the ATO released a draft taxation ruling and booklet on service arrangements. These guidelines indicate a significantly toughened stance on what the ATO deems acceptable and tax deductible. Further the draft taxation ruling and booklet indicate that taxpayers cannot automatically rely on the principles set in the 1977 Federal Court case of Phillips v FCT.

ATO compliance activities will focus on whether service arrangements are commercially realistic and the services are reasonably connected to the business. If so the payments to the service entity will be tax deductible. If not then the purpose and therefore the deductibility of all or some of the service fees may be questioned.

At present the ATO is focusing their audits to high risk cases where service fees paid are over \$1 million and represent over 50 per cent of the gross fees earned by the practice.

For all other service entities, the ATO is allowing a 12 month period to allow taxpayers to review their service entity arrangements.

There is no doubt that the ATO is changing its focus on service entity arrangements. In light of the draft ATO ruling and booklet it is essential that practices take advantage of the 12 month period of grace and review their service entity arrangements to determine what actions need to be addressed to ensure the deductibility of the service fees charged.

There are numerous indicators which the ATO take into consideration when reviewing a service entity arrangement.

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A few critical indicators are:

- Does the service entity arrangement make objective business sense?
- Are service fees and charges commercially realistic?
- Is adequate documentation in place to substantiate the service agreement?
- Who is in control of the service trust?

Once the ATO ruling and booklet is finalised we will be offering a review of service entity arrangements to ensure clients comply with the new guidelines.

**What you thought was acceptable practice in the past may not be acceptable today or into the future.**



### Do You Offer Choice??

The introduction of the new Superannuation Choice regulations takes effect 1 July 2005 and has given employers an even greater responsibility towards the superannuation obligations of their employees.

#### What Choice means for Employees

The new legislation is designed to give Australian workers more control over their superannuation, by allowing them to select the superannuation fund of their 'choice'. Employees covered by the legislation are now able to choose the complying superannuation fund into which their employer contributions are invested. This new leverage for employees has seen the popularity of the Self Managed Superannuation Fund "SMSF" increase dramatically.

#### What Choice means for Employers

Managing choice requires employers to implement processes to effectively manage their new Superannuation Guarantee Levy (SGL) obligations. The implementation of these processes will ensure employers comply with the new legislation and avoid penalty caused through non-compliance, and is also

likely to result in the reduction of costs associated with administering their SGL obligations.

#### Immediate Requirements

Employers must provide a Standard Choice Form to all eligible employees by 28 July 2005 or within 28 days of a new employee commencing employment.

Once a valid choice has been made, the employer must begin contributing to the nominated Superannuation Fund within 2 months of receipt of the Standard Choice Form.

Employers are only required to act on 1 Standard Choice Form per employee per year.

Where more than 1 choice is nominated within a 12 month period, the employer is able to exercise their discretion as to whether they process the second choice.

Where you would like to find out more about Super Choice or information regarding the processes available to effectively implement the new legislation into your workplace please contact our office where we are more than happy to assist.



# Superannuation and Tax Thresholds

## Super Age Base Deduction Limits

Income year	35 & under	35 to 49	50 & over
2005/2006	\$14,603	\$40,560	\$100,587
2004/2005	\$13,934	\$38,702	\$95,980
2003/2004	\$13,233	\$36,754	\$91,149

## Self-employed Contributions Required To Gain Age Base Contribution Limit

Income year	35 & under	35 to 49	50 & over
2005/2006	\$17,804	\$52,414	\$132,450
2004/2005	\$16,912	\$49,936	\$126,307
2003/2004	\$15,977	\$47,339	\$119,865

## Tax Rates 2004 – 2005

Taxable income	Tax on this income
\$0 – \$6,000	Nil
\$6,001 – \$21,600	17c for each \$1 over \$6,000
\$21,601 – \$58,000	\$2,652 plus 30c for each \$1 over \$21,600
\$58,001 – \$70,000	\$13,572 plus 42c for each \$1 over \$58,000
Over \$70,000	\$18,612 plus 47c for each \$1 over \$70,000

## Tax Rates 2005 – 2006

Taxable income	Tax on this income
\$0 – \$6,000	Nil
\$6,001 – \$21,600	15c for each \$1 over \$6,000
\$21,601 – \$63,000	\$2,340 plus 30c for each \$1 over \$21,600
\$63,001 – \$95,000	\$14,760 plus 42c for each \$1 over \$63,001
Over \$95,000	\$28,200 plus 47c for each \$1 over \$95,000

## Tax Rates 2006 – 2007

Taxable income	Tax on this income
\$0 – \$6,000	Nil
\$6,001 – \$21,600	15c for each \$1 over \$6,000
\$21,601 – \$70,000	\$2,340 plus 30c for each \$1 over \$21,600
\$70,001 – \$125,000	\$16,860 plus 42c for each \$1 over \$70,001
Over \$125,000	\$39,960 plus 47c for each \$1 over \$125,000

## Maximum Superannuation Contribution Base

Income Year	Per Quarter
2005 – 2006	\$33,720
2004 – 2005	\$32,180
2003 – 2004	\$30,560

## Motor Vehicle Rates Per Kilometre

Engine capacity		Cents per kilometre	
Ordinary Car	Rotary Engine Car	2004 – 2005 Income Year	2003 – 2004 Income Year
1600cc (1.6L) or less	800cc (0.8L) or less	52 cents	51 cents
1601cc – 2600cc (1.601 – 2.6L)	801cc – 1300cc (0.801 – 1.3L)	62 cents	61 cents
2601cc (2.601L) and over	1301cc (1.301L) and over	63 cents	62 cents



### Cutcher & Neale Finance Broking

Cutcher & Neale's Finance Broking Division is proud to announce their membership within the Mortgage Industry Association of Australia.

The Mortgage Industry Association of Australia (MIAA) is the peak body for the Australian mortgage industry. Members of the MIAA include traditional lending institutions, mortgage managers, credit unions, mortgage brokers, wholesale funding institutions, real estate agents, valuers, solicitors and conveyancers.

All MIAA members are required to belong to an independent dispute resolution scheme, such as the **Credit Ombudsman Service Limited (COSL)** or other industry related body. Loan writing members are also required to become MIAA Accredited Mortgage Consultants (AMC). An MIAA AMC is covered by professional indemnity insurance, has taken part in and passed probity checks, and has met at least minimum education and experience requirements set out by the MIAA.

Coupled with this accreditation the division are now proud members of the New Horizons Lending Group which provide access to over 30 different Residential Lenders within the marketplace allowing us to source the best



Glen Ash

facility to meet your needs, we look forward to assisting you to work towards your goals using one or many of the following finance products:-

- Asset/Commercial Hire Purchase
- Chattel Mortgages
- Finance Leases
- Rental Leases
- Residential & Commercial Mortgages
- Debtor Finance.

So if you want to free up your funds to free up your business, give Glen a call on 4928 8500.

### Did you know?

- Employers must have issued 2005 PAYG Payment Summaries to all employees by 14 July 2005
- The final date for lodgement of the 2005 PAYG Withholding Payment Summary Annual Report is 30 September 2005 where you have a registered Tax Agent. Otherwise due 14 August 2005.
- The Land Tax rate for 2006 will be \$100 plus 1.7% of the unimproved value of the land in excess of the \$330,000 threshold, and will continue to be levied on most investment and holiday homes

### Prefer to receive your newsletter by email?

If you would prefer to receive future editions via email, please email your contact details and preferred email address to [financialparacetamol@cutcher.com.au](mailto:financialparacetamol@cutcher.com.au) We would also love to hear from you if you have any suggestions on what you would like to read in future issues.

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