



money matters

June 2011

Federal Budget

The 2011/12 Federal Budget was handed down by the Treasurer, Mr. Wayne Swan on May 10, 2011. The Treasurer indicated that the Budget needed to contain some 'pain' to bring the budget to surplus by 2012/13 and it's no surprise to find there are no tax cuts and very few incentives for business.

The Treasurer did state that small business is "doing it a little tough" and announced measures including a reduction in the PAYG installment uplift factor and a \$5,000 immediate vehicle write off (although this is not effective until the 2012/2013 financial year).

Personal Income Tax

No changes to the current tax rates were handed down by the government which apply for the 2010/11 year and subsequent years. However, Personal Income Tax Rates have been adjusted to add the flood levy. The levy is expected to raise \$1.8 billion to assist with the reconstruction efforts in the flood ravaged areas of Queensland and Victoria. The levy is to be calculated as follows:

- 0 - \$50,000 - Nil
- 50,000 - 100,000 - 0.5% of amount exceeding \$50,000
- \$100,000 plus - \$250 + 1% of amount exceeding \$100,000

Unearned Income of Minors, Low Income Tax Offset has been removed

The Government will remove the ability for children under the age of 18 to access the Low Income Tax Offset (LITO). This offset has previously reduced the tax payable by minors on their unearned income from sources like dividends, interest, rent, etc. This measure specifically discourages income distributions to children from discretionary trusts.

In the 2010/11 year, minors can receive up to \$3,333 of income without being subject to income tax due to the operation of the LITO. Effective from 1 July 2011 minors will only be able to receive \$416 of unearned income before they pay tax.

Personal Taxation Rebates and Offsets

The Government also announced changes effective from 1 July 2011 that will provide additional cash to low income earners through an increase in the amount of the Low Income Tax Offset. The benefit will be delivered via a reduction in the tax withheld from salaries rather than through a rebate on their annual income tax return. A taxpayer with an annual income of \$30,000 will receive an additional \$300 during the year through lower income tax instalments on their salary.

Medicare Levy Threshold Increases

From 1 July 2010, the Medicare levy low income thresholds will be retrospectively increased to \$18,839 for individuals, \$31,789 for families, \$2,919 for each dependent child or student and \$30,439 for single pensioners below Age Pension age.

HECS Discounts reduced

From 1 January 2012, there will be a reduction of benefits for taxpayers involved in the Higher Education Contribution Scheme (HECS).

- Students who elect to pay their student contribution up front, will only receive a 10% discount (currently 20%).
- For those students who do not pay their student contributions up-front, they accrue the outstanding debt receive a 5% bonus (currently 10%) on any payments of \$500 or more towards the debt.



IMPORTANT DISCLAIMER: This newsletter does not constitute advice. Clients should not act solely on the basis of the material contained in this newsletter. Items herein are general comments only and do not constitute or convey advice perse. Also changes in legislation may occur quickly and we therefore recommend that our formal advice be sought before acting in any of these areas. This newsletter is issued as a helpful guide to clients and for their private information.

Education Tax Refund

The Education Tax Refund lets parents claim a 50% tax refund on eligible education expenses incurred during the year. The total eligible education expenses are capped at \$750 for primary school children and \$1,500 for secondary school children.

Qualifying expenses include:

- laptop computers
- home computers and associated costs including repair and running costs of computer equipment
- computer related equipment such as printers and USB flash drives
- home internet connections
- computer software for educational use
- school textbooks and other paper based school learning material and
- prescribed trade tools.

Examples of education expenses not eligible for the rebate include:

- school fees
- school uniform expenses
- student attendance at school based extra curricular activities
- musical instruments
- sporting equipment
- computer games and consoles.

To receive the benefit a parent must be eligible to receive the Family Tax Benefit (FTB) Part A for their child. The education tax refund is a fully refundable tax offset that will be paid as part of your tax return. If you are not required to lodge a tax return, you will need to lodge a 2011 Education Tax Refund Claim. If your expenses exceed your refund limit for the

year, any excess will be carried forward to your following year's refund claim, as long as you remain eligible.

**note: school uniforms will be added from July 1, 2011.*

Superannuation Excess Contributions Tax – ATO Money Grab!

Since its introduction the Government has raised over \$180 million from what is considered a very unfair tax. It is estimated that 30,000 taxpayers were caught out breaching the annual limits superannuation limits. Many taxpayers breach the caps by mistake or they have no control over the level of contributions being made. The penalty for these excess contributions can be taxed anywhere up to 93% by the ATO. If you are salary sacrificing or have been making additional superannuation contributions it is recommended to complete a reconciliation of your superannuation contributions prior to 30th June. Contact us for further assistance.

Employment Matters - Warning

Since the introduction of the Fair Work Act complaints against employers have increased. One area that has been highlighted is the requirement for an employer to have clearly documented and communicated policies and procedures. These need to cover such areas as anti bullying, complaints resolution, anti discrimination and where relevant to the particular organization, policies on areas such as company vehicle, internet and mobile telephone policies. Recent cases highlight the legal responsibility of the employer to have such systems and

policies in place. In Victoria an employer was fined \$220,000 for not having an anti bullying policy in place. This is a difficult area for all employers to deal with. We do have a recommended solution to help deal with covering off on your responsibilities. Please email sarah@mulcahy.com.au (or phone 03 5330 7200) to receive information on how you can help to meet your responsibilities and protect your business.

Worksafe Insurance

Worksafe insurance (previously known as workcover) needs to be in place if amounts an employer pays to or on behalf of employees will be over \$7,500 per year. We recommend taking out a policy in some circumstances even if wages are below this amount. Recently employers will have received correspondence from the Worksafe insurer relating to the applicable industry premium rate and the businesses Worksafe insurance premium rate. It pays to check the industry classification and applicable rate to ensure it is correct. The rate applied can vary considerably if an incorrect classification is applied. Contact Simon Bennett or Steve Fitzgibbon at our office for further assistance.



MULCAHY & CO
ACCOUNTING

FREE OFFER

Self Managed Super Fund Setup Valued at \$660

Have you considered a self managed super fund (SMSF)?
The potential benefits:

- Greater investment flexibility
- Borrow to invest
- Purchase property
– residential, commercial, farmland

Set up before June 30 2011 and the cost of the SMSF Deed and ATO reg's will be FREE...
A saving of \$660!

**Call Jamie Mulcahy, Chris Mulcahy or
Thayne Turley, on 5330 7200.**

**Terms and conditions apply*

UPCOMING SEMINAR...

Date: Tuesday 12th of July, 2011

Time: 5:45pm registration 6:00pm start

Venue: Mulcahy and Co Boardroom

Guest Speaker: Mark Heffernan – CommSec

Topic: Australian Share Market Forecast for the next 12 months etc.

RSVP: katelyn@mulcahy.com.au

Market Summary;

As you would be well aware the Australian economy has continued to perform relatively well because;

The Australian mining sector continues to benefit from the demand of minerals required for Asia's infrastructure and growth projects.

This demand is expected to continue for many years to come following Asia's GDP growth forecasts of 9.3% and 8.2% for 2011 and 2012 respectively.

This extra revenue from our miners (which they will be required to pay tax on) will be beneficial for the Australian government to reduce our deficit and return it into surplus.

As a side effect of Asia's continued demand for resources and in conjunction with high commodity prices and Australia's perceived economic strength the Australian dollar has increased substantially, reaching \$1.10 US, which has caused some issues for some of Australia's other major industries. I.e. Tourism, Manufacturing, Retailers etc.

This current trend creates difficulty for the RBA in increasing interest rates to curb inflation, which affects all citizens irrespective of their work environment.

To date though the RBA has been assisted by the high Australian dollar the natural disasters that have occurred (Japan's tsunami and Queensland floods and cyclones) in not requiring them to increase interest rates.

However, given it is likely these issues will be resolved in the future increases in interest rates maybe required in the future.

However, on the other hand Europe and the US region have experienced negative sentiment once again, which has impacted financial markets considering;

The U.S.A

An increase in unemployment to 9% from 8.9%, which has been blamed on higher oil prices and a drop in Japanese imports due to production restrictions caused by the recent tsunami.

It is expected that the recent increase in unemployment will be temporary as the economy is likely to continue to expand as fuel prices subside and Japan enters its rebuilding phase and supply chain distributions return to normal.

Europe

Greece has fallen just short of meeting it's austerity measures set just over a year ago by the International Monetary Fund (IMF) and the European Central Bank (ECB).

The ECB has three options;

1. Allow Greece and the relevant bond holders (European Banks and Governments) agree to an extension on payment dates,
2. Allow Greece to default on its debt obligations, or
3. Provide Greece with extra capital to meet its debt requirements.

The latter is expected as the ECB is keen to avoid Greece defaulting in fear of causing a flow on affect to other governments and banks.

If you wish to discuss any of the above in greater detail please do not hesitate to contact me.

Thayne Turley
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MULCAHY & CO
FINANCIAL PLANNING



Wills, Water Licences and the Family Farm

A recent case in the High Court of Australia again has show why having your Last Will and Testament done by someone experienced in the area is vital, rather than opting for a cheap off-the-shelf version.

With the amendments to the Water Act in 2005, "unbundling" allowed the owner of water rights to be a different entity to that of the underlying land. This system has caused enough headaches with land transfers and managing water rights, however one recent case of events was a little too familiar for it to be ignored.

Mr Rush, a Queensland farmer, left his "farm and homestead" in his will to his son John who had farmed the land with him since he was 16 years old. Mrs Rush's daughter, Jean, was married to a successful Real Estate Agent and had not resided on the farm since she left school many years earlier. She was left the balance of Mr Rush's estate. Mr Rush had owned approximately \$800,000 worth of water licenses.

The Court found that given "unbundling", the water licences did not form part of the "farm and homestead" as they were a separately identifiable asset, and accordingly were left to the daughter. The farm was no longer viable without the water licenses, but Jean and John were not close and Jean sought to sell the licenses at market value to the highest bidder.

Despite a very long and extremely expensive legal battle involving numerous arguments surrounding the nature of this a resolution could not be found. This highlights that this and many other legal headaches could all have been avoided with a properly drafted will.

Mulcahy & Co Legal division specialise in Succession and Estate Planning for Farmers. The discussed case of "Mr. Rush" certainly illustrates that investing in a professionally drafted will is time and money well spent.

Call Mulcahy & Co to make a time to begin Estate Planning with our team of experts.



MULCAHY & CO
LEGAL



MULCAHY & CO
LENDING

NEXT PROPERTY SEMINAR...

Date: Wednesday 3rd
August, 2011

Time: 7:00pm start

Venue: Mulcahy and Co
Boardroom

more details to come...

Interest Rates

HOME loan borrowers were spared further interest rate pain on Tuesday 7th June with the Reserve Bank leaving official cash interest rates on hold.

However, it's not all good news as "critical" job numbers out this week could help force the Reserve Bank's hand next month.

After Australia's economy suffered the worst slide in 20 years last quarter, the decision by the Reserve Bank is understandable.

Borrowers should be under no illusions. With inflation risks mounting, rates are heading higher, and soon.

Recent trends in the job ads series indicated a stable labour market for the next three to six months, with unemployment likely to hover around 4.75 to five per cent. Many economists believe "full employment" is reached when unemployment falls to about 5 per cent - a level where wage driven inflation starts to build up due to the mismatch between supply and demand.

With the unemployment rate being so low and likely to remain that way or head lower over the next year, the Reserve Bank will maintain a strong tightening bias in its monetary policy. You can expect a further 25 basis points increase in the RBA cash rate over the next three months in response to tightening labour market conditions and rising inflation pressures. The other fact that needs to be considered is not only the RBA action on interest rates but the banks themselves making moves outside of or in excess of official movements. The Australian major banks are already making noises about this possibility due the their credit ratings recently being downgraded. This will put pressure on their cost of funds which ultimately they pass on to borrowers.

Be Prepared, Get Pre-Approved

Improve Your Purchasing Power by having finance pre-approved. Negotiating can also be improved when looking for a home, commercial property, farm or vehicle by making sure you are prequalified or pre-approved for a loan. Pre-approval is particularly important if you are intending to bid at an auction. A pre-approval can speed up and improve your chances of reaching an agreement on the purchase

price with the seller.

With a pre-approval, you're going to have more leverage when you make an offer.

You can say, "I've got a loan approved already that's sufficient to purchase" and that makes you more attractive to a potential seller. As the loan application work is completed you can offer a quick settlement time, to satisfy a keen seller. Remember if any of your financial circumstances change between getting the pre-approval and you making an offer, you must contact us to ensure the pre-approval is still valid.

Important News for First Home Buyers

The First Home owners grant and associated boosts have been extended for another 12 months. Coupled with the Victorian State Government announcing a cut in stamp duty for First Home Buyers by 20% from 1st July there are still opportunities to enter the housing market.

Grants Currently available:

Purchasing/ Building a new home - \$26,500
Purchasing an existing home - \$7,000