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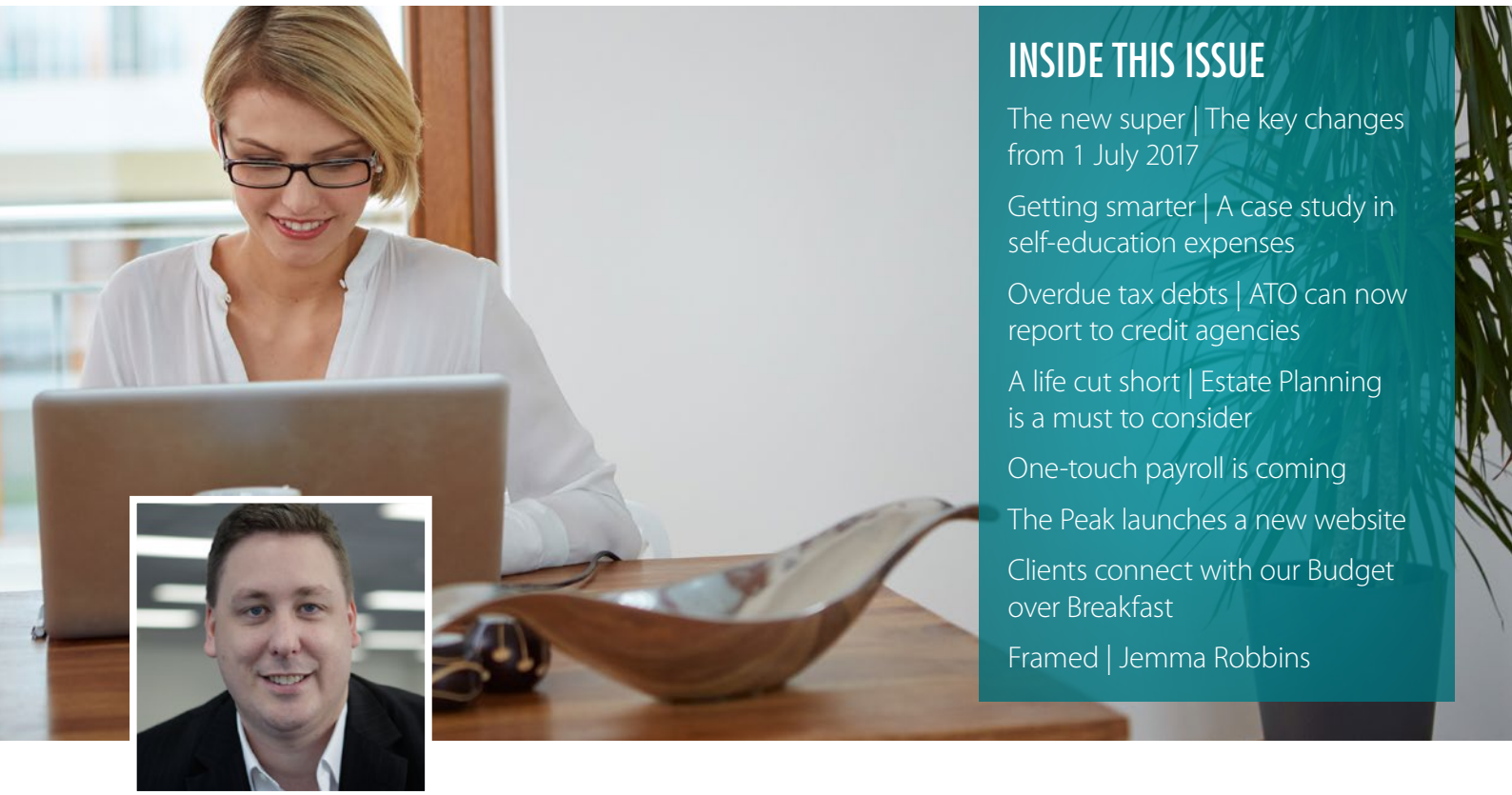
The Peak Partnership
BUSINESS ADVISORS

PINNACLE Newsletter



INSIDE THIS ISSUE

VIEW FROM THE PEAK

with Brad Roberts

As an Accountant and Financial Advisor, the saddest thing I see is the anguish people (clients) go through when a loved one passes away. While nothing can compare with the emotional trauma, the legacy of not leaving an effective Will or Estate Plan can result in long-term distress – even financial hardship – for family members and business partners.

It's a topic nobody likes talking about, but confronting the inevitible is something we all have to face. In a tech-driven world, our financial affairs can be a collection of various assets, logins, passwords, online accounts, share portfolios and much more. Making sure everything is documented and leaving specific wishes for the distribution of our wealth is paramount – and that's where a formal Will and Crisis Management Plan is critical.

With those in place, your loved ones will know where all your assets are, who gets them and how to access them. Let's talk more on this face-to-face!

Great news for small business.

There were some good wins for small business in the Federal Government's May budget, most notably the long-promised tax rate cuts and the extension of the instant asset write-off scheme.

As part of the Ten Year Enterprise Tax Plan, the tax rate for companies with an annual turnover of less that $25 million will be 27.5 per cent – effective from 1 July 2017.

Big businesses with turnovers greater than $25 million will continue to pay tax at 30 per cent for the 2017-18 financial year. However, under the plan, the company tax rate is expected to progressively reduce until 2026 – when business with a turnover of less that $50 million will pay 25 per cent tax on assessable income.

In a promising sign for local company taxpayers, the Government is increasing its push for multi-national entities to pay tax on income generated within Australia. This includes extending the Multinational Anti-Avoidance Law to corporate structures involving foreign partnerships and trusts. The crack-down expects to raise a total of $4 billion this financial year.

$20,000 ASSET WRITE-OFF

The Government has extended the $20,000 accelerated asset write-off scheme for 12 months to 30 June 2018.

Access to the scheme has also been broadened – small businesses with an annual turnover of less than $10 million can now access the tax-deductible benefits. Under the scheme, an eligible small business can purchase depreciating business assets up to $20,000 and claim a full tax deduction in the financial year in which the asset is acquired or installed ready for use.

A depreciating asset is one that is used for business purposes, has a limited effective life and is expected to decline in value over the term of use. Land, premises, trading stock and certain intangible assets (eg. goodwill) are not depreciating assets.

The new super

Changes from 1 July 2017

The start of the 2017-2018 financial year heralded a number of significant changes to superannuation, yet there's still a lot of confusion around what it all means. Here we dissect some of the key changes and help with a few suggestions for your next steps.

CONCESSIONAL CONTRIBUTIONS CAP REDUCED TO $25,000.

From 1 July 2017, the concessional contributions cap reduced to $25,000 for all super members, regardless of age. You should make a point of reviewing any salary sacrifice arrangements in place to ensure you don't breach the new cap going forward.

INCREASED ACCESS TO PERSONAL SUPER CONTRIBUTIONS DEDUCTION.

From 1 July 2017, any individual under 65 can claim a deduction in their tax return for personal super contributions; as well as those people aged 65 to 74 – provided they meet the work test. This ability was previously restricted to those who receive less than 10% of their income from salary and wages. These contributions are included in the concessional contributions cap.

NON-CONCESSIONAL CONTRIBUTIONS CAP REDUCED TO $100,000.

From 1 July 2017, the non-concessional contributions cap reduced from $180,000 to $100,000. Further, members with a total super balance (across all super funds) of $1.6M or more as at 30 June the prior year will not be able to make any non-concessional contributions. Transitional arrangements also apply to the three year 'Bring Forward' rule – this rule can be complex now, so best to check with us before making large contributions.

INTRODUCTION OF THE TRANSFER BALANCE CAP. A $1.6M CAP FOR RETIREMENT PHASE PENSIONS.

From 1 July 2017, an individual can transfer up to a total of $1.6M into tax-free retirement phase pensions (generally, account based pensions). This cap applies per taxpayer across all of their super funds, not per super fund. This is a lifetime cap and will be subject to indexed increases from time to time.

Individuals who had retirement phase pension balances that exceeded $1.6M at 30 June 2017 were required to remove the excess by either commuting to the accumulation phase or withdrawing it from the super system altogether.

Special rules apply to people with certain lifetime pensions (such as defined benefit pensions) that cannot be valued the same way as an account based pension.

REMOVAL OF TAX EXEMPTION FOR TRANSITION TO RETIREMENT INCOME STREAM (TRIS) PENSIONS.

From 1 July 2017, assets supporting a TRIS will no longer be exempt from income tax. That is, income earned on assets supporting the TRIS will be taxed at 15% (same as accumulation phase). The TRIS balance will not count towards the $1.6M Transfer Balance Cap and withdrawals from a TRIS will still be taxed in the same manner.

TRANSITIONAL CAPITAL GAINS TAX RELIEF.

Super funds that are required to adjust pension balances to comply with the new Transfer Balance Cap or have TRIS pensions will have the option of resetting the cost base of its assets to the current market value (generally 30 June 2017) to bring to account capital gains accrued (notional capital gain) that would have been exempt from income tax but no longer will be because of these changes.

The CGT relief is made by an irrevocable election on an asset by asset basis to be made by lodgement of the 2017 tax return or lodgement due date (whichever is earlier). Depending on the conditions met, the notional capital gain can either be disregarded completely, or deferred until the asset is sold. Choosing to defer the gain may not always be the best option.

CARRY-FORWARD CONCESSIONAL CONTRIBUTIONS OF UNUSED CAPS OVER FIVE YEARS.

From 1 July 2018, members will be able to make 'carry-forward' concessional super contributions if they have a total superannuation balance of less than $500,000. They will be able to access their unused concessional contributions cap space on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire. From the 2019-2020 year, members can access unused concessional contributions.

NEED MORE INFORMATION?

If you're concerned that you're not meeting the new super requirements – or you think your super needs a check-up, feel free to connect with one of our qualified advisors. We have people on staff who specialise in superannuation strategy and administration – just call The Peak on 3360 9888.

Getting smarter.
Self-education expenses.

Normally, if you undertake study that is connected to your work you can claim the costs of that study as a tax deduction – assuming your employer has not already picked up your expenses. There is also no limit to the value of the deduction you can claim. While this all sounds great and very encouraging there are issues to consider before claiming your Harvard graduate degree, accommodation and flights as a self-education expense.

A recent case before the Administrative Appeals Tribunal (AAT) looked at a $48,000 claim for self-education expenses. In this case, the taxpayer was an engineer who was employed by a company in the heating, ventilation, and air-conditioning industry.

In his 2014 tax return, 'John' claimed significant expenses relating to research and development projects undertaken in connection with his PhD studies at university. His thesis related to efficient air-conditioning systems. A lot of his claimed expenses were to test the findings of his new invention. John also claimed that he spent considerable money to protect his intellectual property and to submit applications for provisional patents for his invention. His argument for the self-education expenses was that his research was a form of self-education as he could not simply read a book or complete a course to advance his understanding. His experiments were a necessary part of his study.

To be deductible, the study must be connected to the income you are earning (either to maintain or improve your specific skills or knowledge), or is likely to result in increased income from existing income earning activities. The problem in this case was that the expenses were not really connected to John's job (his income), but to the industry he specialised in.

THE OUTCOME: The expenses (all $48,000 of them) were not deductible as they did not relate to John's employment activities and there was no direct connection with the university course. Instead, the expenses related to his own inventions, which he hoped could be commercialised in the future. At best, the expenditure related to a possible future income earning activity, but the expenditure in this case was incurred too soon to be deductible.

The ATO is more likely to target large self-education expenses. For anyone who has completed post-graduate study you know that these expenses can ratchet up very quickly, particularly when you add in any other expenses such as books or travel. It's important to ensure that there is a clear connection between your current job or business activity and the expenses you are claiming before you claim them.

If you are concerned about whether or not the self-education you are intending to complete is deductible, please contact your advisor at The Peak and we can help clarify any issues.

Overdue tax debts.
ATO can report to CRBs.

The Government has announced that the Australian Tax Office (ATO) can disclose debt information to registered credit reporting bureaus (CBRs) of taxpayers that are not effectively engaged with the ATO to manage their debts. The simple message is that taxpayers are encouraged to pay tax debts in a timely manner to avoid it affecting their credit rating.

Providing transparency of tax debts owed by disengaged taxpayers aims to influence their behaviour and reduce the unfair financial advantage for people who don't pay their tax on time. It also provides visibility of tax debt information to other businesses (such as suppliers) and credit providers.

Taxpayers who effectively engage with the ATO to resolve their outstanding debt will not have it reported. It is expected that tax debts will only be reported where:

- the debt is for a taxpayer that has an ABN;
- the debt is over $10,000 and unpaid for over 90 days;
- the debt is not in dispute;
- no payment plan has been established or an existing payment plan has defaulted.

The ATO will notify a taxpayer that it intends to refer a tax debt to a credit reporting bureau before it passes on the information. The ATO will establish agreements with credit reporting bureaus to manage the reporting and administration of tax debt information.

In conjunction with Treasury, the ATO is consulting with the community, including business, industry groups and associations (including the Australian Small Business and Family Enterprise Ombudsman), to ensure that the measure is implemented and administered effectively.

LEGISLATION AND SUPPORTING MATERIAL

This measure is not yet law and is subject to the normal Parliamentary process. It will commence from the date of Royal Ascent once passed through both Houses of Parliament .

LIKE WHAT WE DO? GIVE US A GOOGLE REVIEW.

Professional services firms like The Peak Partnership generally build and sustain their business through word-of-mouth referrals and testimonials. As the digital world and social engagement becomes more ingrained in our everyday lives, online reviews are an important way to prove credibility and reliability.

If you like the work we do and see value in our client/advisor relationship, we'd welcome a Google Review from you. Just do a Google search for 'The Peak Partnership' and click on the Write a Review button on the right. You'll need to sign into your Google Account to complete the review, but then it's just a matter of writing your thoughts about your experience at The Peak.

A life cut short. Lives changed forever.

This is not our story. It's the real-life story about the clients of an interstate advisor. It's a story that is both tragic and confronting, but a story that clearly demonstrates the importance of having a Will and financial instructions in place – because unexpected can and does happen.

This adaptation is courtesy of Estate Planning for Life (www.estateplanningforlife.com.au), a process of advice we are very committed to. Call us if you'd like to know more.

Dave owned a small electrical contracting company and had around $40,000 owed to him by clients. Never one to stress about things, Dave had no Will or Power of Attorney in place, hadn't lodged personal or corporate tax returns in over two years and hadn't lodge a BAS (GST) return in more than 12 months.

Dave owed his father $25,000 that had been spent renovating Dave's house (with no written agreement), as well as $15,000 to suppliers and $15,000 in GST. Dave also had a $242,000 mortgage.

Dave had recently met Jane on a cruise, declaring to family as "the love of my life". Jane resigned from her job on the ship to live with Dave, seeking work in "hospitality onshore" as she put it. Three weeks later on a Sunday afternoon on the local lake, Dave dived off a boat into the water and didn't resurface. It took 12 hours to find his body.

Patrick and Simone, Dave's parents, were understandably in shock. They knew he didn't have a Will, but didn't understand what that meant for them as "default" executors of his estate. A quick call to their financial adviser (me) put them in touch with a lawyer who started the legal process.

Their first task was to bury their son. However Jane, still in shock herself, barred their way for several days "…no, you can't come into our home…we were going to be married!…"

Patrick and Simone now became concerned they were in some sort of family court dispute. All they wanted was clothes in which to bury their son. What were Jane's rights? Did she have a legitimate claim to his house and assets? How were they to handle this when they hadn't even buried Dave yet? Patrick and Simone were forced to seek legal advice about family court matters only two days after they first heard of Dave's death.

A day or two later Jane relented and allowed Patrick and Simone access to Dave's clothes and he was buried gracefully. Jane, in genuine shock, sought counselling and left Dave's house after a few weeks into the care of her own family. However, the nightmare had only just begun for Patrick and Simone as they sorted through Dave's affairs:

- Without any Will, a solicitor had to write to all local law firms and advertise in the media to allow all potential claimants to register an interest.
- With no Will ultimately found, Patrick and Simone needed to be appointed, via Letters of Administration, to take control of their son's estate. This meant they were legally responsible for calling in all Dave's assets and paying his debts.
- All banks, creditors and suppliers had to be contacted and individual arrangements negotiated.
- All Dave's business paperwork had to be found, sorted and reviewed before being given to his accountant to prepare the out-of-date GST and tax returns – both personal and business.
- Personal bills had to be identified and some paid quickly such as funeral expenses, electricity, gas, registration and general insurances just to keep the house and car functional. Superannuation funds had to be contacted and life insurance proceeds claimed.
- The house had to be cleaned after Jane left, some kitchen renovations finished and then the house rented out, while Dave's truck and some tools had to be sold.

With a lot of help from their financial advisor arranging a raft of genuinely caring accountants, lawyers, creditors, bankers etc the issues were dealt with one-by-one over an 18 month period. For a while it looked like the ATO was going to force Patrick and Simone to sell Dave's home at a firesale value. Luckily an accountant negotiated a good outcome at the last minute.

Had any of the creditors or banks been difficult then a horrible situation would have turned into a genuine nightmare for Patrick and Simone. As Administrators (ie. executors) of Dave's estate they were constantly worried that a new creditor would turn up or an existing creditor would turn nasty and they would be dragged into a legal battle or some other fresh hell.

All of these matters dragged on for months. Every day Dave's paperwork was sitting on the kitchen table – a constant reminder. Patrick and Simone suffered depression and had to seek professional counselling as their marriage came under extreme pressure. Ultimately the marriage survived as both are genuine people with deep love for each other.

The worst aspect of this entire experience was the fact that Patrick and Simone were never allowed to properly grieve for their son. They couldn't close the book on Dave's life. His affairs remained with them as an open wound for more than 18 months. This was Dave's legacy. Every wonderful memory they had was tainted by the burden they carried for many years after his estate was finalised.

New Financial Year. New Peak website.

It's something we've been quietly working on for some time, but on 1 July The Peak Partnership launched our brand new website with the help of the Ripe Solutions digital marketing team.

Visually, the new website is quite a departure from the previous version – it has a fresh, new look and it's a lot 'brighter' than the old website.

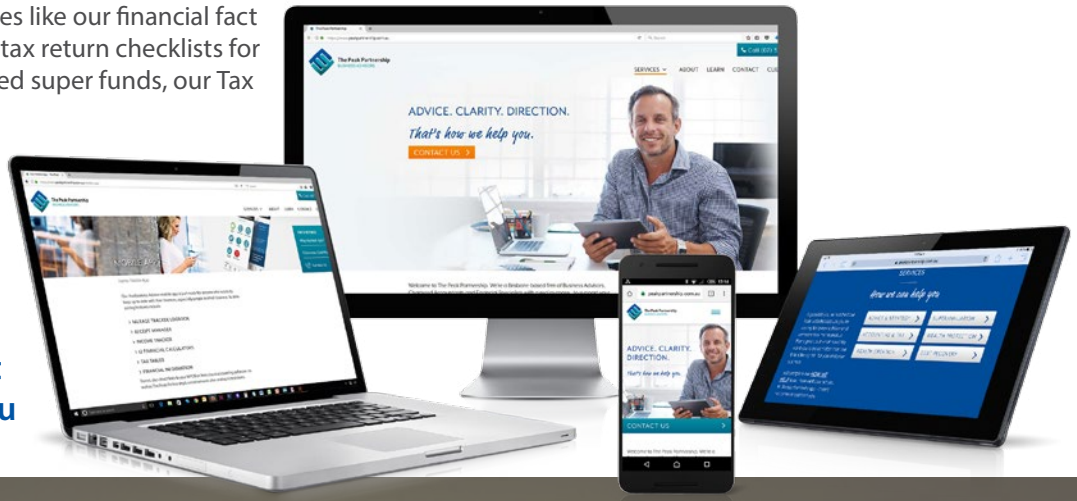
Best of all, our new website is fully mobile-responsive so the viewing experience across desktop, laptop, tablet and smartphone is very user-friendly.

We've kept the menus and navigation similar to the previous website – just in a little more condensed fashion. All the familiar stuff is still there; including free resources like our financial fact sheets that cover a range of topics, our tax return checklists for businesses, individuals and self-managed super funds, our Tax Tutor Guides for 2017-2018.

The login to our Client Secure Portal remains as well – it's just moved to the top right of screen on every page.

Speaking of pages, we've added a convenient sub-menu on the right so you can easily see and navigate to what's available on the page you're viewing.

We'll also be adding a blog section, so you can stay up-to-date with all the latest financial information that applies to business, accounting and tax, investing and super, wealth creation, and a whole lot more.



Check out our new website at www.peakpartnership.com.au

> **"The Peak Partnership will keep our business clients who are likely to be impacted by Single Touch Payroll updated as the program rolls out."**
>
> *Damian Knoblanche, Director*

Single Touch Payroll.

Business needs to be ready by 1 July 2018.

Single Touch Payroll (STP) will change the way just over 100,000 employers report salary and wage payments to the ATO for about 13 million employees.

Single Touch Payroll is a Federal Government initiative to streamline how employers manage their ATO reporting obligations. Employers will be able to report salary or wages, PAYG withholding and super information directly to the ATO at the same time as they pay their employees.

While STP is already available for a small number of employer businesses, it will be a mandatory requirement for employers with 20 or more employees from 1 July 2018.

But before that, on 1 April 2018, employers will need to do a head count of their employees. If they have more than 20 employees on that date, they'll need to make sure their payroll software is STP-enabled from 1 July.

The ATO has been working closely with software developers, digital service providers and tax practitioners to design and implement Single Touch Payroll.

Software developers and digital service providers will deliver a Single Touch Payroll solution that suits business' payroll needs – we expect the majority of accounting software providers will release an STP solution. This means for most employers, Single Touch Payroll will become a part of their existing payroll management system.

WHAT CHANGES FROM 1 JULY 2018?

STP employers will need to report employee payments electronically to the ATO directly from their payroll solutions at the same time they pay their employees.

At the end of the financial year, STP employers won't need to complete employee payment summaries as the payroll information will be reported to the ATO throughout the year.

A raft of payments which in the past needed to be done manually can be done automatically.

Framed. Jemma Robbins.

Jemma may have only been with us a short time (just over six months in fact) but already our Director of First Impressions has made a big impression!

Last December, Jemma came to The Peak from a smaller East Brisbane accounting firm to take over as our front office Receptionist. Since then, she's been a hit with clients and staff alike – always ready to help with a smile and a positive attitude.

Before entering the accounting environment, Jemma started out studying Journalism and Marketing at QUT. Mid-way through her studies, Jemma decided to try her hand at a more practical public relations role interacting with clients and she hasn't looked back. Jemma says The Peak has a great atmosphere, her role is challenging (which she loves) and everyone she deals with is so friendly. "The clients are lovely," she told us with a smile.

Away from The Peak office, Jemma and her husband Joel are busy renovating their 1970s home; as well as four-wheel driving, hiking and hitting the beaches. Jemma also has a little secret passion and talent for singing!

Clients connect with our Budget over Breakfast.

Early May sounds like a long time ago, but it was great to see more than 50 clients and staff getting together for our annual Budget over Breakfast at Easts Leagues Club at Coorparoo.

Over recent years, our Federal Budget Review Breakfast has proven to be a great opportunity for clients to get together with their Peak advisors and to catch up on the big changes out of the annual Budget announcement.

There was special interest around this year's Budget, with a number of changes to superannuation and the Government's push to provide tax relief and business stimulation for the SME sector. There were a few late surprises out of the Budget, like the new 'levy' on the big banks (designed to generate $6.2B in revenue over four years) and a Foreign Worker Levy for businesses that employ 'imported' workers, so our breakfast event helped to clarify some of the issues.

As usual, Damian Knoblanche (Director) led the presentation and discussion, adding his expert take on what the changes will mean for SME, workers and retirees – both short and long-term.

Towards the end of the presentation, Brad Roberts (Director) introduced guests to our range of services – including our recently-developed Estate Planning and Crisis Management advice process. Brad's discussion served more as a reminder of the many different ways we can support our clients with business advice, tax planning and compliance, wealth creation and asset protection.

To finish off proceedings, we briefly presented the features of The Peak's free mobile app – immediately followed by an email invitation direct to guests' smartphones with an invitation to download the app (that's the instant world we live in today).

If you missed our Budget over Breakfast, you can download a PDF copy of the presentation slides from our new website at **www.peakpartnership.com.au** – just navigate your way to **Learn > More Free Stuff**.

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