

Inside Business Seminar Series

Structuring Businesses

Are you effectively briefed on the various stages of the business – From setting up to retirement?.

- What are the critical issues to consider in structuring the set up of a new business?
- Have they changed since you last looked at these issues?
- Do you know the best way to structure the merger of two businesses?
- Can you hand over your business to the next generation without fear or problems?
- Have you set up an effective retirement plan?

Set Up

- Structuring issues
- Assessing discounted capital gains
- Asset protection
- Grouping issues – CGT payroll tax, consolidations and duty

Growing Pains

- Partnerships, shareholders, buy/sell agreements
- Partnerships and GST
- GST issues – transfers, demergers, rollovers, and goodwill
- Consolidations
- Employee share plans and remuneration packaging
- Borrowings- keeping the interest deductible

Mid Term Review

- GST issues – going concern
- R & D concessions warranties in sale documents
- Due diligence issues
- Losses
- Scrip for scrip – family company reconstructions
- Share value shifting

Remunerating the Owner

- Accumulation of assets
- Salary sacrifice
- Superannuation
- Financing
- Capital raisings
- Debt/equity issues

Pre Post Retirement

- Passing control
- Winding up
- Retirement planning
- Estate planning
- Succession planning

Tax issues that seriously impact you

- Given the significant tax reforms over the last 4 years, are you on top of the issues that affect your SME (small medium enterprise).?
- What changes need to be made to the 'classical' solutions for SME clients?
- Are you tax current and ahead of your contemporary's when it comes to tax solutions for SME's?

Pearson Partners 'Inside Business Seminar Series will highlight the key issues that you need to be aware of in this current tax reform environment'.

Seminar Topics

1. Focusing on the emerging SME Tax Issues.

- Trustee Loans under the proposed new 109UB and the transitional rules.
- Can “at call” or credit loans be refreshed ? What are the dangers?
- Can you afford to ignore the general valuation shifting rules?

2. Interest: Issues that demand attention now!

- Interest before a business starts, after it ceases and on refinancing.
- On lending within a group (Rocca’s Case)
- Financing asset revaluation reserve distributions.

3. Unwitting destruction of asset protection structures.

- Bankruptcy and Insolvency- unpaid present entitlements (Legudi’s Case)
- Matrimonial Agreements, Marriage, Separation and Divorce.
- Is there a risk of an unwanted appointor to the family trust.

4. Trusts & Interest: Issues that demand attention- Now!

- What is better- Beneficiary Loan Accounts V Beneficiary Entitlement Accounts.
- Changes to Sec 109UB – what you need to know.
- How far can you go in correcting wrong accounts.

5. Personal Services Income – The Issues

- Business income v personal services income – what are the differences?
- When does APSI not apply?
- Part IVA implications (Mochin’s case)
- Asset protection considerations

6. SMSF Investments in Trusts. Negatively geared trusts and third party payments.

- After Lock’s case, does your client have a S.66 problem that needs addressing?
- When is your negatively geared Unit Trust still useful?
- How does Division 13.3A of the regulations operate?

7. The interaction between capital gains tax and the main residence exemption

- Introduction
- The main residence exemption: overview of the structure of the provisions.
- There is no definition of what it means for a dwelling to be a main residence and no minimum period of residence.
- Extension of exemption to adjacent land.

8. The new value shifting rules introduced as the new business tax system (consolidation, value shifting, demergers and other measure) Bill 2002.

General Value Shifting Regime

The new general value shifting regime (GVSR) applies in relation to interests in both companies and trusts which meet common ownership and control tests, but which are not consolidated groups for the purposes of the consolidation regime. Under the regime value shifts (DVS) or indirect value shifts (IVS).

The GVSR provisions broadly are not applicable in relation to:

- Interests issued at market value;
- rights created at full
- market value consideration;
- DVS for less than \$150,000
- Shortfalls not greater than \$50,000 on non-depreciating assets;
- IVS not greater than \$50,000
- IVS entities dealing at arm's length; and
- Consolidated groups

Our approach

Our approach is to encourage a closer liaison whereby adequate procedures are initiated between client and their accounting division that delivers a stronger professional relationship as an ongoing event throughout the year.

That single task allows compliance figures to be tabled as a by-product and the real work is the periodic reporting of 'dynamic' events. These are the 'moving balances' within a business.

In fundamental terms , you have two types of balances, 'dynamic' and 'static'. Things like 'wages' and 'sales' are dynamic, where 'plant and equipment' are static.

The logic to this approach is that if a dynamic balance does not move – why not?, and if so , what is the movement as well as the variance? In other words, is it moving at greater increments than previous performance.

We compile our approach to monitor four separate areas;

- You
- The Business
- Risk
- Protected Assets

As a further departure from convention, we report (if required) upon a given position measured against nominated 'what if' events.

- Estate Planning
- Business Valuation
- Buy-Sell agreements
- Death, Taxes & Trusts
- Business, Tax & Property Acquisition Strategies

Quick Reference Guide

Tax Rates

Marginal Tax Rates

Individual Rates for 2003-2004 and subsequent years

Taxable Income	Tax Payable (Residents)	Tax Payable (Non Residents)
\$0-\$6,000	nil	29%> \$0
\$ 6001-\$21,600	\$0 + 17% >\$6,000	29%> \$0
\$21,601-\$52,000	\$2,652 + 30%>\$21,600	\$6,254 + 30%>\$21,600
\$52,001-\$62,500	\$11,772 + 42%>\$52,500	\$15,384 + 42%>\$52,000
\$62,501 +	\$16,182 + 47%>\$62,500	\$19,794 + 47%>\$62,500

Medicare Levy

Taxpayer	No Levy If Taxable Income	Reduced Levy 20c/dollar within income range	Ordinary Levy 1.5%
Individual	<\$15,062	\$15,062-\$16,283	>\$16,283
Married	<\$25,417	\$25,418-\$27,477	>\$27,477 Add \$2,334 per dependent child

- 1% surcharge for singles with taxable income > \$50,000 and couples with taxable incomes >\$100,000 who have inadequate private health insurance

Minors

Taxable Income	Tax Payable
0-\$416	Nil
\$417-\$1,445	66% of each \$1 over \$416
>\$1,445	47% of entire amount

Company Tax Rate

The current company tax rate is 30%

Tax Offsets (Rebates)

Low Income Earner's Rebate

A rebate of \$235 is available for people earning up to \$21,600 reducing by 4 cents in every dollar to nil for income in excess of \$27,475

Taxable Income	Rebate
0-\$21,600	\$235
\$21,600 - \$27,474	\$235 – [(taxable income - \$21,600) X 4%]
\$27,475 +	nil

Private Health Insurance Rebate

30% of the premiums paid to appropriate private health insurance.

Spouse Contribution Rate

Rebate of 18% available on up to \$3,000 of spouse contributions. Maximum rebate of \$ 540 is available when spouse's assessable income + reportable fringe benefits is \$10,800 or less. Rebate cuts out at \$13,800.

Rebate equals the lesser of:

$[\$3,000 - (\text{ assessable income} - \$10,800)] \times 18\%$

or

$[\text{Total spouse contributions in that year}] \times 18\%$

Medical Expense Rebate

A 20% rebate is payable on net medical costs in excess of \$ 1,250 that have been incurred by a taxpayer in a tax year on behalf of his or her self and any dependants. There is no upper limit on the amount that can be claimed.

Pensioner Rebates 2002-2003

Age Pension Age Pensioners#	Rebate Level	Taxable Income	
		Shade-out threshold	Cut-out threshold
Single	\$2,230	\$20,000	\$37,840
Couple (each)	\$1,602	\$16,306	\$29,122
Separated due to illness (each)	\$2,040	\$18,883	\$35,203
Pensioners Under Age Pension Age			
Single	\$1,811	\$16,653	\$31,141
Couple (each)	\$1,324	\$13,789	\$24,381
Separated due to illness (each)	\$1,665	\$15,795	\$29,115

Rebate reduces by 12.5 cents for each dollar of taxable income in excess of the shade-out thresholds.

These are the same figures as the Senior Australians Tax Offset

Social Security

Age Pension Assets Test

Family Situation	Home Owner		Non Home Owner	
	For Full Pension	For Part Pension	For Full Pension	For Part Pension
Single	\$149,500	\$298,250	\$257,500	\$406,250
Couple (combined)	\$212,500	\$459,500	\$320,000	\$567,500

Pension reduced by \$3/fortnight for each \$1,000 of assets over min. limit

Age Pension Income Test

Family Situation	For Full Pension pf	For Part Pension pf
Single	\$120	\$1,225.25
Couple (combined)	\$212	\$2,064.00
For each child add	\$24.60 per child	\$24.60 per child

Income over these amounts reduces the pension payable by 40 cents in the dollar for singles, and 20 cents in the dollar for couples.

Age Pension Rate

Single or Partnered, illness separated (each)	\$440.30 # per fortnight
Pensioner couple (each)	\$367.50 # fortnight

Excludes Pharmaceutical Allowance (\$5.80 per fortnight)

Deeming Thresholds and Rates

	Threshold (Effective 1/7/03)	Deeming Rate (Effective 20/3/02)
Single Pensioner	Up to \$35,600	2.5%
	Over \$35,600	4.0%
Pensioner Couple	Up to \$59,400	2.5%
	Over \$59,400	4.0%
Non Pensioner Couple	Up to \$29,700	2.5%
	Over \$ 29,700	4.0%

Pension Age for Women

Date of Birth	Age	Date of Birth	Age	Date of Birth	Age
<30/6/1935	60.0	1/1/40 – 30/6/41	62.0	1/1/46-30/6/47	64.0
1/7/35 – 31/12/36	60.5	1/7/41-31/12/42	62.5	1/7/47-31/12/48	64.5
1/1/37-30/6/38	61.0	1/1/43-30/6/44	63.0	1/1/49 or later	65.0
1/1/38-31/12/39	61.5	1/7/44-31/12/45	63.5		

Tax Capital Gains

Consumer Price Index

Year	March 31	June 30	September 30	December 31
1985			71.3	72.7
1986	74.4	75.6	77.6	79.8
1987	81.4	82.6	84.0	85.5
1988	87.0	88.5	90.2	92.0
1989	92.9	95.2	97.4	99.2
1990	100.9	102.5	103.3	106.0
1991	105.8	106.0	106.6	107.6
1992	107.6	107.3	107.4	107.9
1993	108.9	109.3	109.8	110.0
1994	110.4	111.2	111.9	112.8
1995	114.7	116.2	117.6	118.5
1996	119.0	119.8	120.1	120.3
1997	120.5	120.2	119.7	120.0
1998	120.3	121.0	121.3	121.9
1999	121.8	122.3	123.4	124.1
2000	125.2	126.2	130.9	131.3
2001	132.7	133.8	134.2	135.4
2002	136.6	137.6	138.5	139.5
2003	141.3			

Capital Gains Tax

Assets bought pre 21 September 1999

For assets held for at least 12 months, individuals have the choice to either:

1. Apply a 50% allowance and pay capital gains tax on the whole of the difference between the original cost base and the disposal price

OR

2. Index the cost base and pay capital gains tax on the difference between the indexed cost base and the disposal price.

Indexed cost base = Original cost base X (123.4/CPI factor) as indexation of a cost base was frozen at 30 September 1999.

For assets held for less than 12 months, capital gains is payable on the whole gain.

Assets bought on or after 21 September 1999

For assets held for at least 12 months, individuals must pay capital gains tax on 50% of the difference between the cost base and the disposal price. That is, the 50% allowance rule is applied.

For assets held for less than 12 months, capital gains tax is payable on the whole of the difference between the cost base and the disposal price.

No indexation is available to these assets.

Retirement Income Streams

Minimum and Maximum Pension Valuation Factors (PVF)

Age	Min PVF	Max PVF	Age	Min PVF	Max PVF	Age	Min PVF	Max PVF	Age	Min PVF	Max PVF
30	26.9	10	44	23.4	10	58	18.6	9.3	72	12.6	5.8
31	26.7	10	45	23.1	10	59	18.2	9.1	73	12.2	5.4
32	26.5	10	46	22.8	10	60	17.8	9.0	74	11.7	4.8
33	26.3	10	47	22.5	10	61	17.4	8.9	75	11.3	4.3
34	26.0	10	48	22.2	10	62	17.0	8.7	76	10.8	3.7
35	25.8	10	49	21.9	10	63	16.6	8.5	77	10.4	3.0
36	25.6	10	50	21.5	9.9	64	16.2	8.3	78	10.0	2.2
37	25.3	10	51	21.2	9.9	65	15.7	8.1	79	9.5	1.4
38	25.1	10	52	20.9	9.8	66	15.3	7.9	80	9.1	1.0
39	24.8	10	53	20.5	9.7	67	14.9	7.6	81	8.7	1.0
40	24.6	10	54	20.1	9.7	68	14.4	7.3	82	8.3	1.0
41	24.3	10	55	19.8	9.6	69	14.0	7.0	83	7.9	1.0
42	24.0	10	56	19.4	9.5	70	13.5	6.6	84	7.5	1.0
43	23.7	10	57	19.0	9.4	71	13.4	6.2	85	7.1	1.0

Life Expectancy Table 1995-97

Used in calculating the deductible amount for social security

Age	Male	Female	Age	Male	Female	Age	Male	Female	Age	Male	Female
40	37.88	42.60	50	28.64	33.11	60	20.05	24.11	70	12.80	15.90
41	36.94	41.64	51	27.74	32.18	61	19.25	23.25	71	12.17	15.14
42	36.01	40.68	52	26.85	31.26	62	18.46	22.39	72	11.56	14.40
43	35.08	39.72	53	25.97	30.34	63	17.70	21.54	73	10.96	13.67
44	34.15	38.76	54	25.09	29.43	64	16.94	20.70	74	10.38	12.96
45	33.22	37.81	55	24.22	28.53	65	16.21	19.88	75	9.82	12.26
46	32.30	36.86	56	23.36	27.63	66	15.49	19.06	76	9.27	11.58
47	31.38	35.92	57	22.52	26.74	67	14.79	18.25	77	8.74	10.92
48	30.46	34.98	58	21.68	25.86	68	14.11	17.46	78	8.24	10.28
49	29.55	34.04	59	20.86	24.98	69	13.44	16.67	79	7.76	9.67

Deductible Amount (for Tax)

Deductible amount = (Undeducted Purchase Price- Residual Capital Value)
/Relevant Number

Reasonable Benefits Limits

RBL Limits

	Amount (03/04)
Lump Sum Reasonable Benefit Limit	\$ 588,056
Pension Reasonable Limit	\$ 1,176,106

These amounts are indexed to AWOTE each July.
The lump sum RBL figure is discounted by 2.5% for each year a person taking benefits is under age 55

Transitional RBL (TRBL)

Higher transitional reasonable benefit limits may apply for some people.
To calculate the present lump sum transitional RBL:
(Original Pension TRBL/\$400,000) X current flat dollar pension RBL

AWOTE Figures

Year	March Quarter	June Quarter	September Quarter	December Quarter
1989	493.40	501.40	509.70	516.80
1990	524.80	534.50	541.70	554.40
1991	564.30	560.20	567.50	580.10
1992	588.80	587.30	585.70	586.90
1993	595.50	598.0	600.80	603.50
1994	612.30	616.90	620.00	629.90
1995	639.90	647.20	653.10	661.00
1996	665.80	671.20	674.60	685.50
1997	696.10	697.60	704.30	710.90
1998	721.30	725.20	735.40	742.70
1999	743.80	747.30	753.00	764.20
2000	774.80	784.20	796.10	800.40
2001	810.60	824.10	838.50	848.70
2002	860.50	806.80	879.40	889.60
2003	900.40			

Eligible Termination Payments (ETP)

Tax of ETP

Component	Tax
Excessive Component	100% taxed at top marginal rate
CGT exempt component	Tax Free (within RBLs)
Concessional Component	5% of this component added to assessable income and taxed at individual's marginal rate
Pre 1 July 1983 component	5% of the this component added to assessable income and taxed at individual's marginal rate
Post 30 th June 1983 taxed component	fully included in assessable income, but subject to maximum tax rates as follows: Under age 55: <ul style="list-style-type: none"> • 20% Age 55 and over: <ul style="list-style-type: none"> • first \$117,576 – nil # • excess over \$117,576 – 30%
Post June 1994 invalidity component	Not subject to tax
Undeducted contributions	Not subject to tax

\$117,576 threshold is indexed annually. Medicare levy must also be added to the tax rates except where the nil rate applies.

Preservation Age (men and women)

Date of birth	Preservation Age
Before 1 st July 1960	55 years
1 July 1960 – 30 June 1961	56 years
1 July 1961 – 30 June 1962	57 years
1 July 1962 – 30 June 1963	58 years
1 July 1963 – 30 June 1964	59 years
On or after 1 July 1964	60 years

Other Termination Payments

Annual Leave

Annual Leave Payment	Tax
On resignation or retirement:	
Leave accrued before 18 th August 1993	100% of lump sum is taxed at a maximum rate of 30% + Medicare
Leave accrued after 17 th August 1993	100% of lump sum is taxed at person's marginal tax rate + Medicare
On bona fide redundancy, invalidity, approved early retirement:	
	100% of lump sum is taxed at a maximum rate of 30% + Medicare

Long Service Leave

Long Service Payment	Tax
On resignation or retirement:	
Leave accrued before 16 August 1978	5% included in assessable income and taxed at person's marginal tax rate plus Medicare
Leave accrued 16 August 1978-17 August 1993	100% included in assessable income and taxed at a maximum rate of 30% plus Medicare
Leave accrued after 17 August 1993	100% included in assessable income and taxed at person's marginal tax rate plus Medicare
On bona fide redundancy, invalidity, approved early retirement:	
Leave accrued before 16 August 1978	5% included in assessable income and taxed at person's marginal rate plus Medicare
Leave accrued after 15 August 1978	100% included in assessable income and taxed at a maximum rate of 30% plus Medicare

Bona Fide Redundancy and Approved Early Retirement Scheme

Tax free component equals:

2003/4 \$5,882 plus \$2,941 for each complete year of service.

This amount is tax free, will not count for RBL purposes and cannot be rolled over. These amounts are indexed to AWOTE each July.

Amounts in excess of the tax-free component are treated as employer (untaxed) ETPs. They are split between pre and post June 1983, are counted for RBL purposes and can be rolled over.

Super – contributions

Employer and Self Employed Contributions

Maximum Deductible Contributions (MDC) for employer contributions.

	Deduction Limit	Contribution to get MDC
Age in years*	2003/04	2003/04
under 35	\$13,233	\$ 15,977
35 to 49	\$36,754	\$ 47,339
50 and over	\$91,149	\$119,865

*age in years as at date of last contribution for financial year.

Self employed and unsupported persons

Can claim deduction for superannuation contributions equal to lesser of:

- \$5,000 + 75% of the amount of contributions exceeding \$5,000
OR
- taxpayer's age based limit.

Employee Contributions

Employees with assessable income plus reportable fringe benefits of \$27,000 pa or less can claim a rebate equal to 10% of their rebateable contributions (up to 41,000). Maximum rebate is \$100 (10% x \$1,000). Rebate reduces by 2.5 cents per dollar over \$27,000. No rebate once assessable income plus reportable fringe benefits equals \$31,000 pa.

Super Contributions Surcharge

Surcharge rate depends on Adjusted Taxable Income (ATI), the sum of taxable income, surchargeable contributions & reportable fringe benefits.

Adjusted Taxable Income

Year	Lower threshold	Upper threshold	Denominator
2002/3	\$90,527	\$109,924	\$1,295
2003/4	\$94,691	\$114,981	\$1,355

Super Guarantee (SG)

Financial Year	Min Employer Support
1999-2000	7%
2000-2001	8%
2001-2002	8%
2002-2003 and onwards	9%

The maximum salary to calculate the Superannuation Guarantee required in 2003-2004 is \$122,240 or \$30,560 per quarter.

The minimum salary that requires Superannuation Guarantee to be paid in 2003-2004 is \$450 per month.

