



Message from the Partners

McConachie Stedman was recently a finalist in the 'Professional and Business' category of the Toowoomba Chamber of Commerce & Industry Business Excellence Awards.

It was an honour to be nominated and it's great to see our commitment to our clients recognised at these awards.

On behalf of the Partners and staff at McConachie Stedman, I'd like to congratulate the winner of the award—Stahmann Farms.

I hope you'll find this quarters' newsletter informative, we've included details about changes to company loan rules, recent developments with private health insurance, and information company directors should read about reporting to ASIC and more.

At McConachie Stedman we believe your visit to an Accountant should be more than simply completing a tax return. Clients who come to us to get their individual tax returns processed now have the added benefit of meeting one of our Financial Advisers in regards to investments, debt management, superannuation, insurance and also discussing the importance of having wills and enduring power of attorneys in place.

Thank you for your continual support of McConachie Stedman, I hope you enjoy reading this newsletter.

Myles Smith



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Teen Challenge thanks McConachie Stedman



On 14th July 2010 Alan Le May CEO of Teen Challenge presented an appreciation award to the Partners of McConachie Stedman. This was to acknowledge McConachie Stedman being the major sponsor for the McConachie Stedman Gala Dinner in support of Teen Challenge held on Wednesday 19th May 2010. Net proceeds of the evening were in excess of \$35,000 which went towards the construction of a facility for young females suffering from drug and alcohol addiction. We at McConachie Stedman are proud we were able to assist and that the proceeds are going to such a worthy cause.

Congratulations to Shaun Kiepe—recipient of Incentive Award



McConachie Stedman are proud of their association with Sports Darling Downs and support the organisation by providing quarterly Incentive Awards to young people excelling in their chosen sport.

An awards presentation was held at the recent Sports Darling Downs Breakfast. Partner, Jane Heidrich had the pleasure of presenting Shaun Kiepe with the Incentive Award, recognising his sporting achievements in Lawn Bowls.

The Partners and staff wish Shaun all the best for the future with his lawn bowls.

Seminar

Mortgage Eliminator—5th October, 5:30pm
Held in the McConachie Stedman Boardroom

If you would like more information about this seminar please visit the events page of our website or email
tracey.kessels@mcconachiestedman.com.au.

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DISCLAIMER:

Important: This is not 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 per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. This newsletter is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.

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Tribute to Allan Rother

The partners and staff of McConachie Stedman would like to congratulate Allan Rother on his retirement from the firm, after 27 years of service.

Allan had been an accountant at McConachie Stedman since 1983, and partner of the firm since 1989, providing business, taxation and superannuation advice to a large range of clients.

For many years, Allan was integral in introducing new technology to the firm as a partner on the Information Technology Committee. In later years, Allan was managing partner of the self managed superannuation division, Super Retirement Solutions, since its inception in 2006.

We wish Allan a wonderful and prosperous retirement and a chance to spend much more time with Linda and the children.

Changes to company loan rules

The company loan rules in the tax law can deem that a loan made by a private company to a shareholder (or a related party) is actually a dividend and that they need to pay tax on it (with no access to franking credits) – these are called Division 7A loans.

Two changes have been made recently to Division 7A which considerably expand its operation.

Companies that are beneficiaries

Where a trust distributes income to a corporate beneficiary, but does not pay that income to the company (e.g., the trust keeps the cash to keep running a business), the ATO now believes that the unpaid amount may be deemed to be a loan by the company back to the trust.

Fortunately, the ATO has agreed that, in most cases, this will only apply where a trust distributes income to a company on or after 16 December 2009.

However, amounts distributed after that date will need to be paid out, kept separate from other trust resources, or officially lent back to the trust under a written loan agreement to avoid Division 7A applying.

Use of company assets

New legislation has basically removed the scope for private companies to allow shareholders and their associates (including their relatives) to use company assets – such as real estate, cars and boats – for free, or at less than their arm's length value, without paying tax.

Under the new law, which applies from 1 July 2009, if a shareholder (or their associate) uses a company asset but does not pay the company a reasonable amount for that usage (and no exceptions apply), the company is deemed to have paid a dividend to that person.

Exemptions are available for some farmers and small businesses (including an exemption for the use of assets that could otherwise be claimed as a tax deduction by the user if they paid for that use), and the minor use of assets is also exempt.

If you are concerned about either of these developments, please contact your Accountant at our office on 4632 1966.

Private health insurance and the Medicare levy surcharge

One of the conditions that must be satisfied so that a person will not be liable to pay the Medicare levy surcharge (an extra 1% on top of the ordinary 1.5% Medicare levy) is that they, and all of their dependants, are covered by an insurance policy that provides private patient hospital cover.

Any excess payable upon making a claim under such an insurance policy must be less than \$500 for a policy under which only one person is insured, and \$1,000 in relation to any other policy, in any 12 month period.

The ATO has recently confirmed that, when considering whether a person with private health insurance is liable for the Medicare levy surcharge, any "co-payment" they are liable to make under the policy (such as a fixed daily amount or a percentage of the cost of a treatment or service) is not the same as excess and is not taken into account.



Benchmarks and dealing with the cash economy



Second Commissioner of the ATO, Mr Bruce Quigley, recently spoke about how the ATO intends to use its new "benchmarking program".

"Our small business benchmarks program . . . continues to expand. We have now benchmarked the key business ratios of over 100 different businesses."

"We use the benchmarks to identify businesses that may be avoiding their tax obligations.

"We have recently begun sending letters to approximately 1,000 businesses that are reporting income that is significantly outside of the benchmarks.

"These businesses will be advised that they are required to meet their obligations and/or provide us with records to support the income declared.

"Where they do not fulfil these requirements **we will raise a default assessment based on the information available to us through the benchmarks.**

He stated that tax agents should try to ensure that their clients are reporting within the benchmarked ratios or can substantiate their results when they report outside of them.

If you receive a letter from the ATO along these lines, make sure you speak to your Accountant first before replying!



CanTeen Mobile Phone Muster
During the month of October, bring your old mobile phone into our office. They will be recycled and will help CanTeen raise much needed funds for children living with cancer.

Lines of Credit

Whether your goal is to pay off the house, build wealth for retirement or minimise your taxation bill, a sensible first step is to review and restructure your lending to ensure these plans are put into action.

Many people don't realise that the equity they create by paying off their *bad* (non tax-deductible) debt as their property rises in value can be the most powerful financial tool at their disposal. Many local properties have risen significantly in value over the last few years, providing the ability to set up *good* (tax-deductible / investment) debt to pursue a variety of financial strategies. If loan proceeds are directed towards sound wealth creation or tax minimisation strategies, rather than lifestyle related expenditure, the interest on the additional loan may be tax-deductible and the overall investment return significantly higher than the interest paid.

There are a variety of different loans available to access property equity, with the most flexible type being split *Lines of Credit*. These are advances that are agreed upon by the lender and borrower when the borrower's assets are enough to secure the loan. When you take out several loans with one lender, the total amount that you are allowed to borrow is known as the *global limit*.

Gone are the days of visiting the bank manager to pitch your case every time you want to borrow, with Lines of Credit effectively an overdraft against your home, controlled by the borrower. The global limit means the borrower can split the loan into various different facilities with different repayment options on each split and can increase one facility and decrease another without prior reference to the bank.

Consider the example of a couple with a \$600,000 house and a non deductible home loan of \$280,000. They could set up a line of credit using the value of their house, for example \$480,000. Of this line of credit, they could allocate \$280,000 to cover their bad debt and the remaining \$200,000 may be used to start a gearing program or invest to minimise taxation commitments prior to 30th June.

Principal and Interest repayments to the bad debt are accelerated by incorporating a redraw or offset facility and channelling all income and tax returns to this debt, with Interest Only repayments made to the good debt as the interest may be tax-deductible. As the bad debt is paid off the good debt can be progressively increased, leading to the repayment of the bad debt accelerating exponentially.

There are a multitude of Lines or Credits available with significant interest discounts for couples with over \$50,000 in taxable income.

To ensure you fully understand and maximise your financial situation, speak with Grant Besley at McConachie Stedman on 4632 1966 or email grant.besley@mcconachiestedman.com.au

Strategies to help boost your superannuation savings

Superannuation is still one of the best ways to accumulate wealth and save for your retirement. The main reason is the favourable tax treatment on superannuation benefits.

When you invest using a superannuation structure, earnings are generally taxed at a maximum rate of 15%. A low tax rate means that your savings can accumulate faster than investments taxed at a higher rate.

However to get the most out of superannuation you need to be 'super smart'. You need to understand how the rules work and use them to your advantage.

Below we list seven strategies that could help boost your superannuation savings and achieve your lifestyle and financial goals.



Strategy 1

Consider transferring assets held in your own name into a superannuation fund. Depending on the type of fund you hold, this may be done by making a cash contribution or transferring assets in-specie into your superannuation fund. This may result in a reduction in the tax payable on the income earned.

Strategy 2

Consider making non-concessional (after tax) contributions to superannuation. If you earn less than \$61,920 and meet certain conditions you may qualify for the government's superannuation co-contribution.

Strategy 3

Consider contributing money to your spouse's superannuation. If your spouse earns less than \$10,800 you can then claim a rebate of up to \$540 for the first \$3,000 contributed into superannuation on behalf of your spouse.

Strategy 4

Consider sacrificing some of your salary to superannuation. By having some of your salary paid directly to superannuation, you can reduce the overall amount of tax you pay, while boosting your retirement savings.

Strategy 5

If you earn less than 10% of your income from employment you should consider making a concessional contribution to superannuation. This is a contribution that you may claim as a tax deduction when completing your personal income tax return. It is a perfect way to reduce your income tax, especially if you have sold an asset and realised a capital gain.

Strategy 6

Review your personal insurance. Life and TPD insurance can be purchased via superannuation. This can make the insurance both tax effective and cost effective.

Strategy 7

Seek professional help from your financial planner to review your superannuation strategy. Before implementing any of these strategies you should discuss with a financial planner how you can take best advantage of these or other strategies.

If you have any questions about this article, please email scott.maroske@mcconachiestedman.com.au or phone 4632 1966.

Trauma policy relief for cancer

sufferer An unexpected trauma payout provided a much needed reprieve for Evelyn and Eddie Wilfling after Evelyn's breast cancer diagnosis.

Forty-six needles. Five malignant tumours. One mastectomy. Evelyn and Eddie Wilfling had no idea of the magnitude of what was ahead when Evelyn found a lump in her breast in September 2009.

"There was something else the Wilflings didn't expect: a substantial trauma claim benefit from Zurich after claiming on a barely-remembered trauma policy."

Finding the lump led to two mammograms, then a core biopsy, an ultrasound, an MRI, a lumpectomy, the removal of swollen lymph nodes, a mastectomy and then the diagnosis of a second area of invasive cancer. A suspected lung cancer was thankfully just that.

Off work for five weeks, Evelyn relied heavily on the support of Eddie – her husband of 23 years – and family. "My husband was an angel and did everything around the home," she says. The final tally of cancerous lumps came to five; as the cancer hadn't spread beyond the breast, Evelyn required no further treatment.

The Wilflings took out life insurance and trauma cover when they bought their first home seven years ago although Evelyn admits she'd forgotten about it. In February, when she was recovering, they submitted a trauma claim and a few weeks later, received a very welcome surprise in their bank account.

Evelyn recalls: "It was a Monday morning and I looked at the account and there was all this money there. I thought the bank had made a mistake but then we realised it was from Zurich. We screamed, we cried, we were so happy."

Evelyn was covered by private health insurance but the couple still faced medical bills and out-of-pocket expenses. "It doesn't change the situation but money does help a little bit," Eddie notes. "The most important thing for us was how easy it was to claim." The claim form was lodged on the 15th February 2010 and the payment in their account on 26th February 2010. There were no challenges.

It proves that trauma assessments and claim payments can be completed quickly if the reports from doctors and histopathology are made available at the time of claim.

Eddie now believes trauma cover is just as important – if not more so – than life insurance: "Life insurance is something you leave for your family and children. Trauma comes at the worst time but the right time."

Evelyn is pragmatic about her situation: "I was lucky. One woman gets diagnosed with breast cancer every 43 minutes and there are women who have both their breasts off as well as chemotherapy and radiation." The past months, however, have taught her two valuable lessons: "Don't hesitate to take up trauma cover. And ladies – check your breasts." Source: Article courtesy of Zurich



Financial Reporting Update— Reduced Disclosure Regime (RDR)

Many companies who are required to report to the Australian Securities and Investments Commission (ASIC) may have received correspondence advising of changes to Accounting Standards in relation to the Reduced Disclosure Regime (RDR).

The changes, commencing on 28 June 2010, were introduced by the Federal Government with the aim of reducing financial reporting requirements for Australian companies.

The key changes around financial reporting are:

- reducing the disclosure burden of for-profit companies previously preparing general purpose financial reports by introducing a two-tiered reporting framework; and,
- introducing a three-tiered reporting framework that will reduce the reporting requirements for certain companies limited by guarantee, which typically have a not-for-profit purpose;

The changes have mandatory application from 1 July 2013, but organisations can elect to adopt the standards early for financial reporting periods commencing on or after 1 July 2009.

Two Tiered Reporting Framework

The two tiered reporting framework applies as follows:

- Tier 1 – Entities with Public Accountability (e.g. Australian, State, Territory and Local Government, listed entities and banks, credit unions, insurance companies etc); and;
- Tier 2 – Other entities required to report to ASIC.

Under both tiers, the recognition and measurement criteria remain the same. The only difference between the two tiers is the level of disclosure required. Initial guidance is that significant narrative disclosures may be omitted from Tier 2 financial reports, as well as some disclosure notes such as capital commitments, franking credits and audit fees.

Three Tiered Reporting Framework for Companies Limited by Guarantee

The three-tiered reporting framework that will reduce the reporting requirements for certain companies limited by guarantee means that entities requiring to lodge financial reports with ASIC need only comply with the tier two requirements in the section above. The application of the companies limited by guarantee framework is detailed below:

Revenue	Deductible Gift Recipient	Tier	Financial Report to be Lodged with ASIC	Audit or Review Required
\$0—\$249,000	No	1	Not required	Not required
\$0—\$249,000	Yes	2	Required	Audit or review
\$250,000-\$999,999	No	2	Required	Audit or review
\$250,000—\$999,999	Yes	2	Required	Audit or review
>\$1 million	No	3	Required	Audit
>\$1 million	Yes	3	Required	Audit

It is important to consider if your organisation received grant funding, that your funding agreement may specifically require a higher level of financial reporting or audit than what is required by ASIC.

If you would like to discuss the impact of the RDR on your organisation, email ben.horner@mconachiestedman.com.au.

Contact Leon if you would like to know more about Trauma Cover, email leon.versace@mconachiestedman.com.au or phone 4632 1966.

Chatty Parrot lightens things up...

There was a family that had a parrot that was always embarrassing them by cussing and other stuff like that. So one day the boy took the parrot and stuck him in the freezer. Two hours later the squawking stopped.

The kid checked the freezer and the parrot said, "Okay I'll stop cussing, but I have one question".

The boy said, "What"??
The Parrot asks, "What did the turkey do"???

