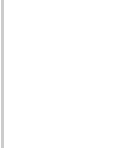


**In this issue**

<a href="#">Home</a>	<a href="#">Car Fringe Benefit Rules</a>	<a href="#">Dependent Spouse Tax Offset</a>
<a href="#">Disallowing Deductions</a>	<a href="#">Changes to the Low Income Tax Offset</a>	<a href="#">Superannuation—Refund</a>
<a href="#">CGT and superannuation funds</a>	<a href="#">Coping with Volatile Markets</a>	<a href="#">Government Stimulus Payments</a>
<a href="#">Small business reforms</a>	<a href="#">Employer Super Obligations</a>	<a href="#">CGT Improvement Threshold</a>
<a href="#">FBT Car Parking Threshold</a>		

**June 2011 Issue** 

**Budget 2011—Reforms to the car fringe benefit rules**

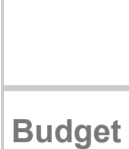


The Statutory Formula method for determining the taxable value of car fringe benefits will be reformed by replacing the current four statutory rates with a single flat rate of 20% that applies regardless of the distance travelled. This reform will only apply to new vehicle contracts entered into after 7.30pm on 10 May 2011 and will be phased-in over four years.

People who use their vehicle for a significant amount of work-related travel can still use the Operating Cost (log book) method to ensure their car fringe benefit excludes any business use.

*Editor: Please contact our office if you are considering salary sacrificing a car fringe benefit, as potentially everyone involved in these types of arrangements will be impacted by this announcement.*

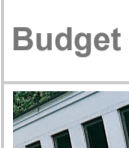
**Budget 2011—Dependent Spouse Tax Offset—Phase-out**



From 1 July 2011, taxpayers with a dependent spouse born on or after 1 July 1971 and with no dependent child/student will no longer be eligible for the Dependent Spouse Tax Offset. This reform is aimed at progressively removing the tax concession for taxpayers with a non-working spouse and no children.

The change will not affect taxpayers with an invalid or permanently disabled spouse, taxpayers whose dependent spouse is a carer, or taxpayers who are eligible for the zone, overseas forces or overseas civilian tax offsets.

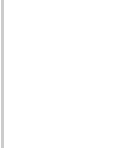
**Budget 2011—Disallowing deductions against government assistance payments**



With effect from 1 July 2011, the tax law will be amended to prevent deductions being claimed against all government assistance payments.

Individuals who receive a student Youth Allowance can still claim a deduction for expenses incurred in gaining their payment for the 2010/11 income year.

**Budget 2011—Changes to the Low Income Tax Offset ('LITO')**

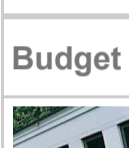


From 1 July 2011, the following changes will apply with regards to the LITO:

- ◆ **Bring forward of LITO**—The amount of the LITO that is delivered to low and middle income earners through their regular pay during the year will be increased to 70% (previously 50%) of their total entitlements. The remaining 30% of their LITO benefit will still be paid as a lump sum on assessment of income tax returns.
- ◆ **Removing eligibility of minors for LITO on unearned income**—The tax law will be amended to remove the ability of minors (children under 18 years) to access LITO to reduce tax payable on their unearned income (such as dividends, interest and rent), to discourage income splitting between adults and children.

Income earned by minors from work will still be eligible for the full benefit of the LITO. Also, unearned income of minors who are orphans or disabled, as well as compensation payments and inheritances received by minors will not be affected by this measure.

**Budget 2011—CGT and superannuation funds**



Complying superannuation funds will no longer be able to treat certain specified assets (mainly shares, units in a Trust and land) as trading stock when buying and selling them, meaning that gains or losses on such assets will be subject to CGT (and losses on them can only be offset against capital gains rather than other income).

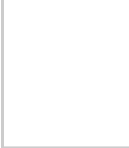
**Budget 2011—Superannuation—Refund of excess concessional contributions**



The tax law will be amended to provide eligible individuals with the option to have excess concessional contributions taken out of their superannuation fund and assessed as income at their marginal rate of tax, rather than incurring excess contributions tax.

The measure will apply where an individual has made excess concessional contributions of up to \$10,000 (not indexed) in a particular year, and will only be available for the first year, commencing from 2011/12, in which a breach occurs.

**Budget 2011—Small business reforms**



The Government has announced the following tax reforms for small businesses:

- ◆ **Entrepreneurs' Tax Offset ('ETO') abolished**—The ETO will be abolished with effect from the 2012/13 income year.
- ◆ **Immediate \$5,000 initial deduction for motor vehicles**—Small businesses will be allowed to claim up to \$5,000 as an immediate deduction for motor vehicles acquired from the 2012/13 income year. The remaining cost of the vehicle value will be added to the General Small Business pool and depreciated under the existing simplified depreciation rules for small business entities.

**Coping with Volatile Markets**

*"Frame every so-called disaster with these words 'In five years time, will this matter?' However good or bad a situation is, it will change. Time heals almost everything. Give time time."* Regina Brett.

For most people, volatility in investment markets is hard to stomach as nobody likes to see their capital go backwards. Doubt starts to creep into your thinking and you begin to second guess your commitment to your plan. The temptation to tinker with your strategy heightens, the longer the market volatility prevails. This is exactly where we find ourselves today, as it has been over three and a half years since stock markets started to head south in October 2007. They reached a bottom in March 2009 before rallying up nicely to September 2009 and then promptly stopped and have effectively done nothing since. Markets have basically been flat to range-bound for the last 21 months.

When you look at studies of major corrections (i.e. declines of > 40%), markets seem to follow a similar pattern, i.e. they reach a peak, crash, reach a bottom where good value is apparent, commence the first leg of a rally up as investors buy this value, muddle sideways/range-bound for a number of years due to doubt, and finally have a second rally up in which capital is recovered. In the past, it has taken up to 6.5 years for markets to go through this cycle, and on that basis, you might assume we are only halfway along this journey. We are still in the muddling phase and are yet to enjoy the second rally up. For those investors who have taken risk over the last 4 years, they have not been rewarded. Conversely, for those investors who have not taken any risk, they have been rewarded more. This is not normally the case over the long term.

During this cycle, some people roll with the punches and don't worry about what they can't control, some see opportunity to buy quality investments at cheaper prices, and some find it simply awful and worry about their money. With term deposit rates now at 6%, the temptation is to cut and run, and that is fine if it gives you peace of mind, but in the words of John Paulson, "You give up a lot of return for the privilege of sleeping well at night". How long will you be content with that 6% return for, when markets do start to earn more than that, which they will do at some stage.

For those who worry about markets and their money, it can be helpful to consider the following:

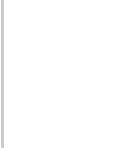
- A total investment return comprises of two components, being income and capital (gain or loss). Most investments will continue to earn income, even if the capital value is declined. For example, shares in Woolworths, went from \$35 in 2007 down to \$24 in 2009, and are currently \$27, but over this period have continued to pay a dividend (i.e. income) every 6 months and this dividend income has steadily increased. As long as you understand what income you are getting and are happy with the income, the capital recovery should eventually take care of itself.
- Are your long term plans and objectives unchanged or unaffected? If so, let time do its thing. If not, see your adviser for a review to find out what your options are.
- Ask yourself, will all of this really matter in 5 years time.
- In this information age, the media noise is constant and unrelenting, and 99% of this information is not really helpful to you. Good news doesn't sell, whereas bad news does, and most people skate through life without anything really bad happening to them. You need to train yourself to switch off to this constant media noise.
- Accept that the one certainty in life is that the future is never certain. Life isn't fair, but it is still good.

If however, you find you are psychologically unable to cope with market volatility, then your peace of mind is more important and the right thing to do is to reduce your risk levels, and you should see your adviser to see how this can be done. But once the decision is made, you should not look backwards, and focus on what is in front of you.

If you need to review your position or are worried about your money, please contact Greg Watson or Daniel Hogan of Carey Financial on 4772 7200, as we would only be too pleased to try and help you.

One quote from Brian Tracy that may be helpful to finish on is "Optimism is the one quality more associated with success and happiness than any other".

**ATO focus on employer super obligations**



The ATO is reminding employers that meeting their super obligations is an important part of running their business.

If an employer misses the super guarantee quarterly deadline, they must submit a *Superannuation Guarantee Charge (SGC) statement* to the ATO.

The SGC is payable if an employer:


- does not pay enough super contributions for their eligible employees (at least 9% of their ordinary time earnings);
- does not pay super contributions for the quarter at all;
- does not pay super to the employee's chosen super fund; or
- pays a super contribution to a fund after the cut-off date for payment.

**Can the SGC be offset?**

If an employer makes a super contribution to an employee's super fund after the cut-off date, they may be able to offset this late payment against their SGC liability (a 'superannuation guarantee late payment offset').

Employers can elect to apply the late payment offset when the late payment for an employee is made into a complying super fund before the SGC assessment for the quarter is made.

**Compliance project: Government stimulus payments**

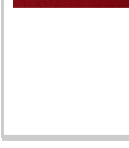


The ATO has recently started a compliance project that focuses on businesses that received government stimulus payments.

As part of this project, they have received information about payments made to businesses under the Home Insulation Program and Building Education Revolution and compared this information to their other records.

The ATO will send about 5,000 advisory letters in total to businesses that have received stimulus payments to remind them they must report this income in the income tax returns and activity statements where applicable.

**FBT car parking threshold**



The car parking threshold for the FBT year commencing on 1 April 2011 is \$7.71 (up from the amount of \$7.46 that applied in the previous FBT year).

**CGT improvement threshold**



For the 2011/12 income year, the improvement threshold is \$130,418 (up from \$126,619 for the 2010/11 income year).

This threshold is used for working out when a capital improvement to a pre-CGT asset is a separate asset and for capital improvements to CGT assets where a rollover may be available.

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