CLIENT NEWSLETTER

Katanning
June 2017

OFFICE UPDATE

In March RSM Katanning along with Agconnect of WA Farmers Federation hosted a sundowner where Jimmy briefly spoke about the future of agriculture and aimed to introduce our team to a younger generation of farmers.

Staff Holidays

Geri along with her husband Ron, went on a trip to South America for two weeks over the Easter break where they visited Peru, Brazil and Chile, and got to take in some awesome views of Machu Picchu.

Geri and Ron after conquering Machu Picchu

Lauren celebrates her 21st

Staff Birthdays

We recently celebrated Laurens 21st birthday with a morning tea in the office after she celebrated her birthday weekend cycling in Albany with her parents.

Social Media

RSM Katanning now has a facebook page and clients are encouraged to follow our posts which may serve as reminders about important deadlines and other tax changes that may impact on their personal and business situations.
RSM Australia (Katanning, Western Australia)

ZONE NEWS

We are pleased to announce that two of our team members were recently promoted at the Partners Meeting in Gold Coast in May.

Jimmy Smit from Katanning has been elected as a Principal.

Jo Gilbert from Albany was invited to be a Partner.

Both of these roles are effective from 1 July 2017 and are a sign of the success of our Great Southern Zone and the faith that the partner group has in our Zone.

Geri, Di and Bernard congratulate Jimmy on his promotion

We wish both Jimmy and Jo all the best for their future at RSM Australia.

RSM

FEDERAL BUDGET 2017–18

With an emphasis on themes of fairness, security, and opportunity, key 2017–18 Budget initiatives focussed on housing affordability, securing funding for the National Disability Insurance Scheme (NDIS) and spending on infrastructure.

The average Australian will be impacted with respect to the increase in the Medicare levy to 2.5% and the accelerated Higher Education Contribution Scheme repayments, however they are likely to at least appreciate that the funding will go towards better education, training, support for the disabled and more affordable housing.

Foreign investors

Foreign investors, foreign workers and multinational organisations are the "Frankenstein" that the Treasurer is seeking to prevent from leaving the castle, or at least not leaving without paying their fair share of tax. For foreign owners of residential property, the Treasurer has introduced:

- a charge for properties that have been vacant for at least six months per year;
- changes denying access to the main residence CGT exemption from 9 May 2017;
- an increased CGT withholding rate to 12.5% (up from 10%); and
- a reduced CGT withholding threshold of $750,000 (down from $2 million)

Foreign workers

Changes to the skilled visa rules to target genuine labour market shortfalls, and a levy on Australian businesses that do employ foreign workers are sure to hit Australian businesses.

Residential property

Australian resident property investors were also on the Federal Treasurer's agenda. Whilst there is once again no changes to negative gearing or the 50% CGT discount for residential rental properties, from 1 July 2017 travel costs relating to inspecting, maintaining or collecting rent for a residential property will no longer be tax deductible. In addition, rental property owners will only be able to claim depreciation on plant and equipment they purchase themselves, reducing the ability for investors to use a quantity surveyor's report to claim deductions for prior owners' expenditure on assets within the property.

Small Business

Small businesses with turnover of less than $10 million received a 12 month extension to the instant write off for assets costing less than $20,000, with this measure being retained until 30 June 2018. Other than this measure, small business owners asked for nothing in Budget 2017–18, and seemingly received it in abundance from the Treasurer.

The Treasurer also reaffirmed the Government's 10 year plan to reduce the corporate tax rate to 25%.

First homeowners

Changes to allow first homeowners to salary sacrifice amounts into superannuation to save for a home deposit will be welcomed by those seeking to establish a foothold into the buoyant East Coast property market.

Agribusiness

In 2016 the government introduced measures to increase the small business entity aggregated turnover threshold to $10m from 1 July 2016, increase the unincorporated small business tax discount from 5% to 16% over a 10 year period and reduce small business company tax rates to 27.5%.

In 2017 the Government have extended the $20,000 instant asset write off threshold until 30 June 2018 and have recommitted to reducing the corporate tax rate over 10 years to 25% for all companies.

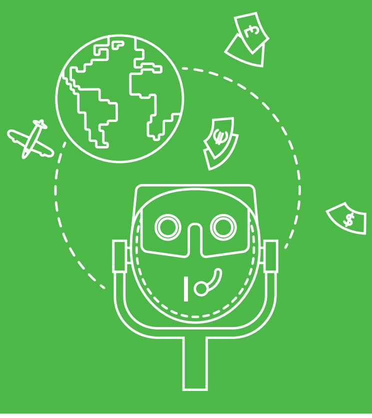
But farmers might be more concerned with the impact on costs associated with other measures such as:

1. A major bank levy from 1 July 2017. The 0.06% levy on a banks liabilities will raise significant revenue for the government but the charge may be passed on to customers.

2. The new levy on visa's shall make solving regional skilled staff shortages more difficult. The extensive list of specialist skills includes, for example, diesel mechanics and that could result higher costs being passed on to farmers. For a business of less than $10m turnover per year, they will be required to make an upfront payment of $1,200 per visa per year for each employee on a Temporary Skill Shortage visa and make a one off payment of $3,000 for each employee being sponsored for a permanent Employer Nomination Scheme (Subclass 186) visa or a permanent Regional Sponsored Migration Scheme (subclass 187) visa. Businesses above $10m pay $1,800 and $5,000 comparatively.

3. Medicare levy increase from 2% to 2.5% from 1 July 2019.

Successive Federal Budgets have failed to deliver the significant tax reform that the Australian business community yearns for and, in that regard, this Budget has not let us down.



IDEAS AND INSIGHT, COLLABORATION AND UNDERSTANDING.

BUSINESS PARTNERSHIP: EASY TO GET IN, SOMETIMES PAINFUL TO GET OUT

By Jim Adamson

As the saying goes " If you fail to plan, then you plan to fail! "
Not enough planning goes into starting a business partnership prior to its commencement.

There are two essential agreements to put in place before starting a business partnership:

Firstly, a business plan communicates objectives, expectations and outcomes.
The plan usually covers all aspects of the business – the customer, suppliers, financial requirements, equipment, environment and commercial regulations. However, whilst this covers the business, what about the relationship between the partners themselves and their individual expectations of the other partners?

The second essential agreement is the partnership agreement.
A business partnership is no different to any other relationship – it consistently needs to be nurtured, reviewed, amended, accommodated, appreciated and acknowledged. And partnership breakdowns are no different to any other relationship breakdowns. They need to be managed effectively to minimise exposure to risk, legal and accounting costs and mental wellbeing. Good business relationships don't happen by luck or chance. It takes an innovative, imaginative, organised, disciplined approach combined with good old fashioned hard work. Don't assume your business is someone else's responsibility. Take Proprietorship. If you don't care – no one else will.

Ignorance of what the other parties may be doing in the business is not an excuse.
If you are financially involved in a business and have given Guarantees, you need to be fully aware of what is happening with the day to day operation of the business. There needs to be transparency. There is no point after the event saying–

> "I didn't know what was going on."
> "I trusted my partner."
> "I thought he was doing the right thing."

The partnership agreement should specify obligations, duties, responsibilities, profit sharing rates, how partners will be remunerated and who will ultimately be in charge.
The Agreement should cover the following areas; death, disagreements and conflicts, (and how these conflicts should be managed), divorce, disability and succession. What happens when a partnership comes to an end or one partner wants to leave? How will partnership assets be valued? How will payment be made and over what time period?

Have regular, open and forthright meetings on how the business is progressing.
All partners should be aware of the financial position of the Business, especially in today's environment of Cloud Accounting. By the time you get your last year's financial statements from your Accountant, perhaps well after the end of the financial year, it may be too late!

Business will evolve and change.
Whether it is the father and son on the family farm or two friends in an engineering business, there is usually implied understanding of what's going to happen, but very little formal communication of how the business might transition and evolve over time. You need to be flexible enough to move with the times but there should be an agreement in place which covers each partner's expectations. The courts are littered with examples of where people have taken their parents, siblings, children or friends to court to claim their rightful dues.

A knowledge and understanding of what each party bring to the business relationship is paramount. Are your values the same, do they have the same work ethic? Ensure everyone is accountable? Do they have integrity? Do you trust them?

Ensure ownership of the business and its assets are owned in the most appropriate structure to protect them from external creditors. Protect your private assets from exposure to the business where possible. Be aware you are liable for all partnership agreements, known and unknown.

It's not possible to elimnate all issues associated with a partnership but with open eyes and carful planning the rewards can be very fruitful and any necessary parting should not be bitter, protracted or costly.
Remember – Today is not too late to put the right Partnership Agreement in place.

Please get in touch for any questions you may have regarding partnership agreements or starting your own business – our experts will be happy to assist you!

IMPENDING SUPERANNUATION CHANGES

By Daniel Purslowe

On the eve of the new financial year let's take a look back on some of the key changes to superannuation that will begin to affect people from 1st of July 2017. In some cases you'll need to take action well before then.

Here's a quick rundown of the 4 biggest changes starting on the 1st of July 2017 and some hints about who it may effect.

1. The amount of super that can be moved into a pension has been limited:

The superannuation pension must be the best tax structure in all of Australia, no matter your wealth, any income or earnings within your superannuation pension fund are taxed at.... 0%. Which is why a superannuation pension fund is so desirable and the government wants you to fill up your pension funds, but not too much. The Pension Transfer Balance Cap as it has been called, commences on the 1st of July 2017 and will limit the amount that individuals can transfer over their lifetime from their superannuation fund into a pension fund to only $1.6 million.

This is a new rule entirely and there was previously no limit at all to the amount that you could transfer into a superannuation pension. From the 1st of July anyone who commences pensions with a balance in excess of $1.6 million will be hit with penalties on their excessive portion. It's important to keep in mind that this isn't a limit on how much you can have in superannuation generally, or how large your superannuation pension fund can grow due to earnings, it's only a limit on the amount transferred into the pension phase.

Hints:

- It's a limit imposed per person, not per superannuation pension fund, so if you have two pension funds that exceed $1.6 million when combined this affects you.
- This is RETROSPECTIVE if you already have pension fund balances but they exceed $1.6 million, you haven't been spared, it will affect you too! You'll be required to reduce your pension funds to fit within the caps by 1 July 2017.
- If you have a defined benefit or fixed income stream and a regular pension fund, this may impact you too. The government will assign your defined benefit income stream with a lump sum value and may push you over the limit.

2. Reduction in superannuation contribution caps

As happens every few years the limit to how much we can contribute to superannuation gets adjusted. This year, no surprises here, it's a reduction. For people over 50, the reduction is significant.

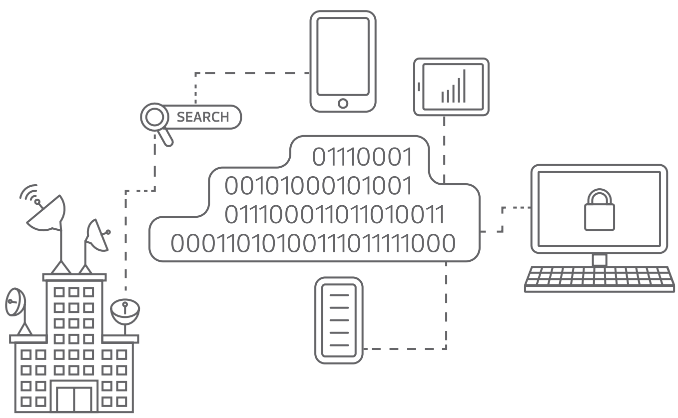
Contribution	Age or member	Current rules	Rules from 1 July 2017
Before-tax	Under 50	$30,000 per annum	$25,000 per annum
Before-tax	50 or over*	$35,000 per annum	$25,000 per annum
After-tax	Under age 65*	$180,000 per annum OR up to $540,000 under the bring-forward rules	$100,000 per annum OR up to $300,000 under the bring-forward rules
After-tax	65 or over	$180,000 per annum	$100,000 per annum

** At anytime during this financial year*

Before tax contributions include any employer contributions made on your behalf, any salary sacrifice contributions you have arranged and any personal deductible contributions you've made.

Hints:

- Look out if you've been salary sacrificing, particularly if you're over 50, your current arrangements may leave you contributing too much and land you in hot water next year.
- Those planning to make large contributions prior to retiring have had their ability to do that reduced. The message for the government is clear, make consistent regular contributions as the days of being able to get large lumps sums contributed in one hit are gone!



3. The ability for everyone to make Personal Deductible contributions (before tax contributions):

This is one of the few victories from last year's budget. Previously if you were an employee and wanted to make a tax deductible contribution to your super fund, you had to arrange with your employer to salary sacrifice through the year and only if they permitted it. From the 1st of July you'll be able to transfer funds, as a lump sum, directly from your personal bank account into your super fund and claim a tax deduction. This was previously only available to self-employed people but will now allow employees far greater flexibility in how they contribute to super.

Hints:

- If your employer doesn't permit salary sacrifice contributions you will now be able to make additional contributions

If you were previously making salary sacrifice contributions, you might consider instead making a single personal deductible contribution

4. Transition to Retirement Pensions now taxed at 15% :

A transition to retirement pension allows an individual to begin accessing their super monies in the final few years of their working life to offset any potential reduction in working hours and help them "Transition to Retirement" rather than simply retiring. All of the income and earnings that occurred within the new pension fund were then also taxed at 0% making it an especially powerful tool as the income within a standard super fund is taxed at 15%. However from the 1st of July 2017 any Transition to Retirement pension funds will now be taxed at 15%.

Hints:

- If you are already running a transition to retirement pension, it should be reviewed to ensure that, without the 15% tax advantage the strategy is still a worthwhile exercise.

If you feel that any of these issues may affect you please contact your local office.

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RSM SCHOLARSHIP

Looking for a career in Accounting? We are offering $7500 scholarships to help you transition to university.

We understand how difficult it is to relocate from regional Australia to study and start your career at a city university.

We are offering three scholarships to first year university students who have relocated from a Western Australia regional or rural area to study.

The RSM scholarship provides you with financial support for costs related to your University degree and living arrangements. You will also have the opportunity to gain practical experience through paid employment during your university breaks at our regional offices.

Winners will receive:

- Once off payment of $5,000 upon receipt of your scholarship
- Up to $500 each semester towards the costs of your textbooks
- Paid employment during your university breaks to gain practical accounting experience
- Ability to work with a diverse range of clients in your local area
- Networking opportunities within the industry

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