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2016 Spring Newsletter

Contents

It's a Spring thing . . .

Our newsletters aim to keep you informed about a wide range of areas that impact you, this advice is of course generic in nature and not personal advice. Please call our office to discuss any article or any matter relating to your own personal circumstances.

In this edition you will find a number of articles on the Research & Development Tax Incentive, business outlook update, benefits of health insurance, how mortgage assessment rates can impact your loan application, reducing your insolvency risk and ATO tips for tax time.

I am here to help. As an example, if you would like to arrange a review of any of your finance needs, I can introduce you to assistance with home loans, investment loans, construction loans, tax debt finance, car loans or any business equipment finance.

The Research & Development Tax Incentive (Source: ATO)

Are you thinking of applying for the Research and Development (R&D) tax incentive?

To assist, the ATO have developed a checklist to help you to:

- self-assess the eligibility of your company and of the R&D activities you wish to apply for;
- source valuable advice on the records you need to keep;
- correct mistakes and challenge decisions; and
- recognise the red flags the ATO watch out for when dealing with promoters of aggressive R&D arrangements.

Administered jointly by the ATO and AusIndustry, the R&D tax incentive provides targeted R&D tax offsets designed to encourage more companies to engage in R&D. Using the R&D checklist will help you access the program and minimise any mistakes when applying.

Additionally, AusIndustry provides an overview of the R&D tax incentive program, including information on R&D tax incentive topics such as eligibility, self-assessment, how to register and some helpful advice on keeping good records.

STEP 1	STEP 2	STEP 3	STEP 4	STEP 5	STEP 6
What is the benefit?	Is my business eligible?	Is my work eligible?	What records do I need to keep?	How do I register?	How do I claim?

Assess the eligibility of your company

The R&D tax incentive provides targeted tax offsets designed to encourage more companies to engage in R&D activities. To take advantage of these R&D tax offsets you need to be an R&D entity. An R&D entity is either a corporation that is incorporated under an Australian law or, in some circumstances, a foreign corporation.

You can check the AusIndustry or ATO website to self-assess the eligibility of your company, or contact AusIndustry or the ATO to confirm whether you are an R&D entity.

Assess the eligibility of the R&D activities

Your research and development activities must meet certain criteria to be eligible for the R&D tax incentive. They must be classified as either 'core R&D' activities or 'supporting R&D' activities. Broadly, core R&D activities are experimental activities that both:

- are based on principles of established science
- proceed from hypothesis to experiment, observation and evaluation, and lead to logical conclusions.

Importantly, core R&D activities must be conducted for the purpose of generating new knowledge (including the creation of improved materials, products, devices, processes or services). A supporting activity is one that is directly related to core R&D activities or, for certain activities, has been undertaken for the dominant purpose of supporting core R&D activities.

If you are unsure about the eligibility of your R&D activities, there are different types of findings you can apply for through Innovation Australia. Findings provide practical certainty to program participants and allow the regulators to determine the eligibility of activities.

Keep accurate records to substantiate and demonstrate the eligibility of the activities and associated expenditure

To help you with your record-keeping requirements under the R&D tax incentive, the R&D Tax Incentive - Record Keeping and R&D Planning fact sheet provides information about what records you should keep, and for how long, to support your R&D claim. Maintenance of good records will help companies comply and receive the maximum benefit from the R&D tax incentive, and will also minimise the costs that may be associated with a compliance review, risk review or finding.

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The Research & Development Tax Incentive

Apply for registration

Where you have self-assessed your eligibility and wish to claim the R&D incentive, you must register your R&D activities with AusIndustry and receive your unique registration number:

- for every income year you want to claim the offset
- within 10 months of the end of your company's income year
- prior to claiming the R&D tax offset in your company income tax return.

Note that registration of activities by AusIndustry is not a verification of eligibility or an approval of the payment of a tax offset.

Make adjustments if necessary

You may need to make adjustments to your income tax return if:

- you have received a government recoupment
- your R&D activities have produced either marketable products or products that have been applied to your own use
- you are registered for GST.

Lodge your claim for the income year

After registration with AusIndustry, you can claim the R&D tax incentive tax offset by completing a Research and Development Tax Incentive Schedule and relevant labels of the company tax return and lodging them with the ATO. Details for calculating and lodging the R&D claim can be found on the ATO website.

Making incorrect claims may result in penalties. Ensure you only include expenditure in an R&D claim that is actually incurred on R&D activities, not other ordinary business activities. It is important the information you supply to both AusIndustry and the ATO is accurate, consistent and supported by evidence and records. Significant discrepancies in the information provided to AusIndustry and to the ATO will increase the likelihood of your company's claim being reviewed.

You can object to the assessment (within certain time limits). When the ATO or AusIndustry makes a decision on your registration or claim, they will also let you know how you may request a review if you are dissatisfied with the decision.

For more information

If you need more information about whether your activities are eligible, you can ask AusIndustry (who act on behalf of Innovation Australia) for advice by visiting www.business.gov.au.

If you need more information about whether the expenditure you are claiming is eligible for the R&D tax incentive, you can refer to www.ato.gov.au/Business/Research-and-development-tax-incentive/ or give our office a call.

To Approve or To Not Approve

How Mortgage Assessment Rates Impact Your Home Loan

By Troy Starcevich, InterPrac Mortgages

As a borrower, are you aware of what a mortgage assessment rate is and the impact it has on your ability to successfully apply for a home loan?

There is a misconception that lenders assess your ability to repay a home loan based on interest rates at the time of your application. This is not the case.

Interest rates will rise and fall during the lifetime of a loan. When lenders assess your application, it is always based on a higher interest rate, to reduce the likelihood of default or undue hardship in meeting your loan repayments.

The level of the buffer lenders add to the interest rate is known as the mortgage assessment rate, and this varies from lender to lender. This buffer can range from 1.0% to 2.5% above the variable rate, and helps protect the lenders against variations in the interest rates during the life of the loan.

Not only do the mortgage assessment rates vary between lenders, they also vary across the range of loan products offered by each lender. These variations mean that when you apply for a loan each lender will offer you a different loan amount, depending upon the lender and the type of loan.

As an example, compare the current (August 2016) standard variable assessment rates of three lenders:

ING = 8.0%
NAB = 7.4%
CBA = 7.47%

Fixed rate products can attract a lower assessment rate, as the interest is locked in for a set period, while variable rate loans are often higher.

Variations in the banks' mortgage assessment rate, combined with the variations in their internal lending policies, such as allowances for minimum living expenses, percentage of rental income or other income accepted for repayment servicing and treatment of your credit card debt, all have a bearing on the lenders assessment of your borrowing capacity.

Based on the example rates above, the maximum borrowing capacity based on income of $75,000 p.a. with no other expenses, for a standard variable loan is:

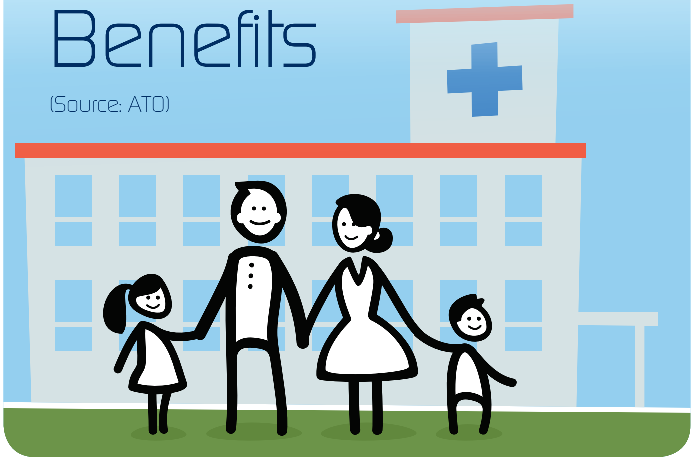
ING = $445,102
NAB = $474,884
CBA = $433,472

The difference is substantial at almost $41,500. As many potential homeowners and investors can attest, this could mean the difference between your loan being approved or not approved.

If you are in the market for a home loan, it clearly pays to contact an experienced, qualified mortgage broker who can guide you towards the lenders most suited to your situation. Whether you are looking to buy your first home, move home, refinance or invest, a mortgage broker can help navigate the variations between lenders to secure you the most appropriate loan for your needs.

Health Insurance Benefits

(Source: ATO)



We're often guilty of not taking care of ourselves until it's too late.

Simple steps like having health insurance can make all the difference when a family member becomes unwell. Poor health is already a stressful time for you and your family, so any financial strain can amplify this.

Not only does access to health insurance provide peace of mind when you or a family member is sick, it can also provide access to preventative measures, such as general dental and remedial massage, to assist in maintaining good health.

You may actually save money by opting for health insurance.

If you are single with an income above the threshold of $90,000, you will be charged the Medicare levy surcharge if you do not have private health insurance.

In addition, for every year after you turn 31 that you do not have private insurance, you will be charged an annual percentage loading premium. The amount of a person's lifetime healthcare cover (LHC) loading is determined by the number of years they are over 30 years old at the time they take out hospital cover. Each year will attract an extra 2% to their hospital cover premium. For example, if you wait until you are 40 years old, you could pay an extra 20% on the cost of your hospital cover. If you wait until you are 50 years old, you could pay 40% more. The maximum LHC loading that can be applied is 70%.

Since 1 July 2013, the government has not payed the private health insurance (PHI) rebate on LHC loading applied to the costs of a policy.

All very good reasons it's worth thinking about health insurance before you turn 31.

Business Confidence Positive

(Source: NAB)

Data from the latest NAB Monthly Business Survey has shown Australian business confidence remained positive through July 2016, despite a cacophony of external shocks.

Whilst the survey was conducted prior to the RBA's recent decision to cut the cash rate by 0.25 per cent, firms are still experiencing elevated levels of business conditions. Service sectors continue to be the best performers, with notable differences between the industries surveyed. Mining has undergone the largest deterioration whilst retail experienced a significant improvement.

These results mirror the findings of the recent NAB SME Survey which revealed strong results across a wide range of indicators in Q2, suggesting that the non-mining recovery is broadening to include smaller businesses. While SMEs have continued to lag behind the broader business community, the gap between them has narrowed.

Australian economic growth is expected to remain resilient at 2.9% in 2016 and 2017, despite significant variations across industries and states. However, the risks to the longer term outlook going into 2018 are becoming increasingly apparent, as resource exports flatten out and the dwelling construction cycle turns down.

The economy may require additional monetary policy action to support growth, which may see an increase in support for the RBA to cut rates again over the next 12 month cycle. This may be enough to stabilise the unemployment rate at just over 5.5% and prevent economic growth from dropping below a forecast target of 2.6% in 2018. If the outlook deteriorates any further, monetary policy discussion may turn to the possible use of non-conventional policy measures. Additionally, persistent weakness in CPI inflation could potentially trigger a rate cut sooner than later.

ATO TIPS FOR TAX TIME (Source: ATO)

INCLUDE ALL YOUR INCOME

Declare all your cash and online sales in your tax return. Income may also include money you have earned from participating in the sharing economy such as renting out a room or driving passengers for a fare.

DON'T MISS OUT ON DEDUCTIONS

You can claim tax deductions for most costs you incur while running your business, such as operating expenses like stationery, wages and equipment. If your home is your place of business, you can claim the business use portion of some expenses.

You can claim a deduction for most expenses you incur in running your business as long as they are directly related to earning your assessable income, but there are exceptions. For example, you cannot claim deductions for private or domestic expenses. Entertainment, fines and some other expenses are also specifically excluded.

You can generally claim operating expenses (such as office stationery and wages) in the year you incur them. However, you typically claim capital expenses (such as buildings, machinery and equipment) over a longer period of time.

The rules for business income and deductions vary depending on your business structure, whether you hold and sell trading stock, and the nature of your income and expenses.

CHECK IF YOU HAVE PERSONAL SERVICES INCOME

If you work for yourself and are paid mainly for your personal efforts, skills or expertise, you may be earning personal services income which can affect the deductions you can claim. The ATO has created a Personal Services income tool to work out if your income is personal services income and if special tax rules apply.

INSTANT ASSET WRITE-OFF

If you have bought assets for your small business, you can immediately deduct assets costing less than $20,000 each in the year you buy and use them, or install them ready for use.

If you're unsure, call us, we are here to help you.

Reduce Your Insolvency Risk

(Source: Greg Charlwood)

The latest Trade Payments Analysis from Dun & Bradstreet shows businesses are waiting on average almost 45 days for payment. Slow payment not only impacts on your ability to pay your suppliers on time, it also reduces your ability to grow the business and increases your likelihood of insolvency.

Business owners can take active steps, like improving budgeting and cash flow management skills, to minimise their insolvency risk. There's no profit in a sale unless you get paid, and that means getting paid in a timely manner so that you can maintain an active business cash flow.

Here are some tips to help manage your business cash flow better.

1 SIMPLIFY YOUR INVOICING

Many small business owners are surprised at the difference it makes to payment rates when they make their invoices easy to pay. Don't allow confusion to be an excuse for clients to not pay invoices.

Paperwork should clearly state all relevant details, including customer order reference, payment due date, your bank details, clear description of the goods or services provided and a name and number of who to contact with queries.

2 TIMELY INVOICING

It is also a good idea to issue the invoice as soon as a job is done or goods are despatched, rather than waiting until the end of the month. Every extra day you wait for payment equates to extra interest and it all adds up in ways that many small businesses cannot afford.

3 DUE DILIGENCE

SMEs should be running regular credit checks on potential and current customers, to minimise the risk of default.

4 ALTERNATIVE FINANCE OPTIONS

Start-up owners and existing SMEs should take a look at how they finance their business and whether it is the most effective way to help them thrive, not just survive.

Rather than relying on overdrafts, one option available to SME owners is factoring, or invoice finance. Facility limits are based on accounts receivable balances, so the amount of cash available grows in line with sales. What this means is a small business receives ongoing access to the funds it needs to complete the next order, without being forced to wait 30 days or more for customers' payments.

If you have any questions regarding helping you manage your cash flow and minimise your insolvency risk, call us, we are here to help you.