

Dear Client,

We are pleased to supply you with the November 2009 edition of **The Report**, which contains information on a number of important developments in taxation including:

- **Collapsed Managed Investment Schemes and Tax Consequences** — The Commissioner has given his preliminary views on the tax consequences for investors with interests in collapsed managed investment schemes.
- **Advance to Partnership not a Loan** — The AAT has affirmed that an advance of money to a partnership was a capital investment and not a loan.
- **Trading Stock and Trade Incentives** — A ruling has been issued clarifying the tax treatment for buyers and sellers of trading stock where a trade incentive is provided to a buyer.
- **SMSF Non-compliance Notice Upheld** — An SMSF has been found not to be a complying superannuation fund because it did not satisfy the definition of an Australian superannuation fund.
- **Proposed Tax Law Amendments** — The Government has introduced a Bill seeking to amend various provisions of the income tax legislation.
- **Contributions Caps and Reserves** — The Commissioner has given his preliminary views on the use of contribution reserves within an SMSF and the excess contributions tax.
- **Mail-out to Super Fund Members** — The Tax Office has commenced sending letters to individuals who are at risk of exceeding the superannuation contributions cap.
- **GIC and SIC Rates Released** — Interest rates have been released for the second quarter of the 2009/10 income year.
- **Donations to Typhoon in Taiwan** — Taxpayers may be able to claim a deduction for any donations made to victims of the typhoon that hit Taiwan in August 2009.

**Please note:**

Please ensure that any children/grandchildren who may be beneficiaries of Trusts have a Tax File Number.

**MELBOURNE CUP HOLIDAY**

The office will be closed on **Tuesday, 3<sup>rd</sup> November 2009**.

Please contact us if you wish to discuss how the points raised in **The Report** specifically affect you.

Yours sincerely

**GUESTS ACCOUNTING**

# the report

## tax news | views | clues

### **Collapsed Managed Investment Schemes — Tax Consequences**

The Tax Office has released three draft determinations, which set out the Commissioner's preliminary views on the tax consequences for investors with interests in collapsed managed investment schemes (MISs).

The tax consequences are:

- a change of responsible entity of a registered agricultural MIS does not affect the tax outcomes for a participant if the scheme continues to be implemented in accordance with the relevant product ruling;
- a disposal of an interest in a non-forestry MIS that arises as a result of circumstances beyond the control of a participant will not result in the denial of deductions previously allowed; and
- a payment received by a participant in a non-forestry MIS upon the winding-up of the scheme, which does not involve a disposal of the participant's interests to another person, may constitute assessable income depending on the nature of the payment.

### **Advance to Partnership not a Loan**

The AAT has affirmed that an advance to a partnership was a

capital contribution to the partnership and not a loan as submitted by the taxpayers. Therefore, the Tribunal held that deductions claimed by the taxpayers for interest and loan service costs were not deductible.

In reaching its decision, the Tribunal noted that there was no formal agreement relating to the loan. It also noted the taxpayers' accountant recorded the advance in the books of the partnership as being of a capital nature.

- A written agreement should be entered into to formalise a loan. In addition, the terms of the loan must be at arm's length.

### **Trading Stock and Trade Incentives**

The Tax Office has released a ruling that clarifies the tax treatment for buyers and sellers of trading stock where a seller provides trade incentives to a buyer. Examples of trade incentives include upfront volume rebates, promotional incentives and bundled incentives.

If a trade incentive relates directly to the purchase of trading stock:

- a buyer will reduce the cost of acquiring the trading stock; and
- a seller will reduce the proceeds from the sale of the trading stock.

Conversely, where a trade incentive does not relate directly to the trading stock or depends on satisfying a condition, a buyer and seller do not need to reduce the

cost of acquisition and the sale proceeds.

### **SMSF Non-compliance Notice Upheld**

The AAT has affirmed the Commissioner's decision to issue a non-compliance notice to a self-managed superannuation fund (SMSF) because the fund did not satisfy the definition of a 'complying superannuation fund'.

Following an audit, the Commissioner determined that the SMSF was not a complying superannuation fund and issued the notice. This was because all decisions in relation to the

management and control of the SMSF were made overseas.

The Tribunal found that the central management and control (CM&C) of the fund was outside of Australia for more than two years. Accordingly, the Tribunal held that the SMSF was not a complying superannuation fund.

A fund must be an 'Australian superannuation fund' in order to be considered a complying superannuation fund and, hence, receive concessional tax treatment.

Three conditions must be satisfied before a fund can be considered an Australian superannuation fund. One of the conditions is that the CM&C of the fund is ordinarily in Australia. If the CM&C of the fund is temporarily outside of Australia for a period of not more than two years, it will be deemed to be in Australia.

- In the Tax Office's Compliance Program for 2009/10, it has highlighted that ensuring SMSFs satisfy the definition of an 'Australian superannuation fund' will be one of its focus areas

## Proposed Tax Law Amendments

The Government has introduced a Bill into Parliament seeking to:

- ensure a representative of an incapacitated entity will be responsible for the GST consequences that arise during their appointment;
- address a number of PAYG issues arising from the introduction of the taxation of financial arrangements;
- ensure payments made under the Helping Children with Autism package are exempt from income tax;

- exempt payments made under the Continence Aids Payment Scheme from income tax;
- exempt debts issued in Australia by the Commonwealth from interest withholding tax; and
- provide the Victorian Bushfire Appeal Fund Independent Advisory Panel with greater scope to support communities and individuals affected by the 2009 Victorian bushfires.

## Contributions Caps and Reserves

In a recent superannuation meeting, the Tax Office set out the Commissioner's preliminary views on the implications regarding the use of contribution reserves within an SMSF and the excess contributions tax.

The Tax Office states that where a non-concessional contribution is credited to a fund's contribution reserve before being credited to a member's account in the following financial year (but within 28 days of the end of the month that the contribution was received by the trustee), the contribution will count towards the member's non-concessional cap for the financial year that it is allocated to their account.

- Where an individual exceeds the contributions caps for an income year, the individual can potentially trigger a tax penalty with an effective rate of up to 93%.

## Mail-out to Super Funds Members

The Tax Office has commenced sending letters directly to individuals who are most at risk of exceeding the superannuation concessional contributions cap. According to the Tax Office, the

aim of the letters is to prompt the individuals to review the amount of their concessional contributions for the 2009/10 income year.

Clients who have received the letter should contact us to discuss their proposed contributions to avoid triggering any adverse tax consequences.

## GIC and SIC Rates Released

The Tax Office has released the general interest charge and shortfall interest charge rates for the second quarter of the 2009/10 income year (ie 1 October 2009 to 31 December 2009):

Rate	Annual (%)	Daily (%)
GIC	10.30	0.02821918
SIC	6.30	0.01726027

The Tax Office has also released the interest rate for overpayments, early payments and delays in refund for the second quarter of the 2009/10 income year. The applicable interest rate is 3.30%.

## Donations to Typhoon in Taiwan

The Government has announced that Typhoon Morakot, which hit Taiwan on 7 August 2009, has been recognised as a natural disaster. Therefore, taxpayers may be able to claim a deduction for donations made to organisations for providing relief to Taiwanese who are affected by the typhoon.

- An organisation must be endorsed as a deductible gift recipient before a donation is deductible.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this Bulletin. 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. The Bulletin 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.