Are big companies getting a better deal than you?

How can you fight back

Hauled in before a Senate enquiry, media mogul Kerry Packer famously said, "Of course I am minimising my tax. And if anybody in this country doesn't minimise their tax, they want their heads read, because as a government, I can tell you you're not spending it that well that we should be donating extra!" see below for the statistics ..

With everyone's super growing, now court cases are revealing the problems associated with incorrect documentation or poor planning and advice. See below for a summary. *With our alliance partners we can help, if you wish to review your situation*.

The world is changing with currency becoming virtual. See the discussion below on 'Bitcoins'

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Are the big companies getting a better tax deal than you?

The Tax Justice Network - Australia, recently created headlines when they released a report into the practices of the top 200 ASX listed entities ahead of the G20 summit. The report revealed that:

- Nearly 1/3 have an average effective tax rate of less than 10%
- 57% have subsidiaries in tax havens or low taxing jurisdictions
- 60% report debt levels in excess of 75% of equity.

What this equates to is that 29% of ASX listed entities have an effective average annual tax rate of 10% or less and 14%, including James Hardie, have an effective tax rate of 0%.

21st Century Fox has a reported 117 subsidiaries in tax havens or low taxing jurisdictions. Responding to the headlines Mr Murdoch tweeted "NO tax avoidance by News, Fox or any Murdochs in Australia. Courts ruled, so move on!"

Tax is like any other cost in your business. It should be managed effectively so you don't pay any more than you need to.

So the question is, is it likely that the biggest companies are paying a lot less tax than the average Australian business? The answer is yes, of course. The reason is simple, tax is a local jurisdiction issue and international corporations have the capacity to look across the tax minimisation opportunities globally, not just locally. As long as everyone operates within the local laws, they are not doing anything illegal by minimising tax. Plus, Government's often offer tax incentives for large entities to establish in their region for the stimulus and job opportunities they provide

The issue for Government's across the board is what happens when it's no longer minimisation but evasion - transparency is one issue. The recent G20 endorsed a common reporting standard for the automatic exchange of information. The new reporting standard will be introduced in Australia in 2017 with the first exchange a year later.

Got international connections? How to avoid problems

Whether you're in business or an individual taxpayer, if you have funds flowing between countries, the tax office is going to be interested in you. For individuals, Project Do It provides an opportunity to voluntarily disclose unreported foreign income and assets before the tax office discovers them.

For business, trigger points include:

- **Excessive debt levels in Australia**_ The thin capitalisation rules place a limit on the level of interest and other debt deductions that can be claimed in Australia when Australian operations are heavily funded by debt rather than by equity. Legislation recently passed by Parliament retrospectively tightens these rules further for entities with very large debt deductions ($2m and above).

- **Excessive costs paid by local subsidiaries**_The Government is particularly concerned with arrangements where Australian entities transfer intellectual property to a low tax jurisdiction for a relatively small amount of money and then pay considerable sums for the use of those assets on an ongoing basis. Large management fees paid by Australian entities are another trigger for the ATO.

- **Use of Tax Havens?** Or low taxing jurisdictions

Can smaller businesses get a better tax deal?

The answer is 'sometimes' but you need to be proactive. Larger companies tend to spend more on advice to not only identify current opportunities but to understand the tax impact when acquiring new businesses, selling assets, structuring or restructuring. We've seen many scenarios where businesses seek advice on tax issues once contracts have been signed – at the tidy up stage. It's too late at this stage to improve the tax position or unwind a problem.

- **Understand what's available to you** – **concessions** exist for small business entities and other entities if you know where to look. Often business just doesn't have the time or feel the need to invest to explore anything beyond the compliance basics.
- **Get your structures right –** a lot of companies fall into the trap of looking at their structure once they have achieved a certain level of growth or decide it's time to make significant changes – like bringing in investors or selling part of the business. By this time the cost of changing structure is prohibitive. If you put a structure in place at the start that creates flexibility and tax efficiency, yes it will cost a few more dollars but you will enjoy the tax benefits as you grow plus your structure will accommodate change as your business builds out.
- **Ensure that income and profits flow effectively –** this is a follow on from structure. Once you have the right structure you can optimise the tax efficiency of how income flows to you providing you plan this in advance

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Can individuals get a better tax deal?

Individuals have **fewer choices** when it comes to minimising tax but there are still opportunities depending on your circumstances. Salary and wage earners will have **limited flexibility** over direction of their income. Salary packaging can provide some tax benefits. Beyond that however it will be more a matter of **how you structure your other investments to optimise your tax outcome**. This applies at both an income and **capital gains level**. The use of **trust structures, appropriate negative gearing**, and maximising the benefits of franking credits can all assist in reducing your tax exposure.

Business owners and the self-employed have greater flexibility over how they receive their income and you should take advantage of this. Smart tax planning causes income to fall in the right places and maximises the use of lower marginal tax rates.

All of this requires some focus and attention **early** in the process. Don't wait until your tax liability is 'hurting' you. **Take advice early** and have a tax plan to ensure that your tax outcomes are as efficient as possible.

The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained. To discuss contact shukri@propertytaxspecialists.com.au

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*Refinancing – alliances **with brokers***

With interest rates at below 5% for fixed term loans, refinancing may result in a savings for some clients. Financing new projects with these lower rates may make some projects feasible.

So to help clients analyse their situation and determine whether there is a benefit for them, we have created alliances with brokers who are able to deliver these low fixed rates. Call us on 02 9411 8133 for details.

Financial Planning with your Tax Planning

Tax planning should ideally form part of your overall financial planning, as it may well have an impact on your overall financial situation.

As we are not licenced to give investment advice, we have created alliances with licenced Financial Planners and Advisers as an additional service to clients. To get an overall perspective of a client financial situation, we have persuaded them on arrangements to attend a tax advice meeting with us and you .. when requested, or arrange for them to meet you directly at no cost to you. Call the office on 02 9411 8133 for more details.

Checklists and Templates

To make the compilation & reporting task for 2014 tax returns easier, clients of **Property Tax Specialists** receive checklists and templates to facilitate the process ... **saving them time and money** ... the 'write' way is having clear documentation. ATO way means time/money wastage with audit investigation.

Two heads are better than 1? Discuss your plans? Call to chat ...

Contact us if you would like to

- review & discuss your current property & tax situation ... maybe the next deal or
- whether or not to sell a property, which one in the portfolio should be sold
- your asset protection strategy. What is your risk profile? High ..medium ..low
- structuring your next investment property. In whose name should it be?
- planning to legally minimise your tax position or just to explore the possibilities
- Subdividing a block or your Main Residence … Capital Gain or Main Residence
- Capital Gains on selling a previously Main Residence .. estimate tax
- Is your Self Managed Super Fund ready to acquire a property
    1. with limited recourse loans
    2. from lending institutions or yourself
- prepare your next tax return or application to reduce your PAYG

We look forward to being of service. We also look forward to your **referrals**.

To improve our service we welcome all constructive comments on this newsletter and other materials.

Tax & Business Tips

October 2014

Call/email **Shukri Barbara** at Property Tax Specialists at Shukri@propertytaxspecialists.com.au

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Shukri Barbara CPA CTA

Winner - **Readers Choice Awards** Your Investment Property Magazine

2014 - Property Tax Adviser of the Year

2012 - **Property Tax Adviser of the Year**

2011- **Property Tax Specialist of the Year**

Tax Columnist – Smart Property Investment magazine

Tax Contributor – You Investment Property Magazine

Property **Tax** Specialists – Prosperity & Peace of Mind

Barbara & Co

phone 02 9411 8133

fax 02 9412 2833

mobile 0410 588 305

post: P.O.Box 665 Chatswood NSW 2057

office

Level 5 suite 509, 71-73 Archer Street Chatswood NSW 2067

website www.propertytaxspecialists.com.au <http://www.propertytaxspecialists.com.au>
