



VICTORIAN FLOODS

A snapshot of issues to assist those affected

From late 2010, Victoria and Australia have suffered significant flooding disasters. With such wide spread damage and destruction, Business and Government have pledged their support to primary producers, businesses and individuals who have been victims of these disasters.

A brief snapshot of flood relief information is listed below, and we encourage you to contact us if we can assist you in any way during this crisis.

Our clients, staff and their families have been directly and indirectly affected by the floods and we are working to support them.

MAJOR BANKS AND FINANCIAL INSTITUTIONS

All the major banks are currently offering concessions and financial assistance to their flood affected customers including the following:

- Suspending home loan repayments for up to three months;
- Waived early withdrawal fees on term deposits;
- Waived home loan and personal loan application fees;
- Credit card and personal loan relief where appropriate;
- Considering requests for additional loans or credit limit increases where appropriate; and
- Loan restructuring for business customers without incurring establishment fees.

Customers are being encouraged to contact their branch manager or business banker to tailor an assistance package to their personal circumstances. We can assist you in liaising with your bank(s) regarding the financial assistance you may require.

AUSTRALIAN TAXATION OFFICE

The ATO has a longstanding policy of providing support to people affected by natural disasters, including flooding. This includes:

- allowing lodgment deferrals of activity statements or income tax returns without penalty;
- allowing additional time to pay tax debts without incurring general interest charges;
- making arrangements for payment of tax debts by instalments;
- remitting penalties that were automatically imposed during the disaster;
- fast-tracking refunds;
- refunding amounts credited to existing debts where the client has entered into a deferral to pay, or an arrangement to pay their tax debts; and
- conducting field visits to assist with reconstructing tax records and making reasonable estimates.

Extension to lodge December monthly Activity Statements for business customers in flood affected areas

The ATO recognises that businesses in flood affected areas may need more time to meet their lodgment and payment obligations. The ATO has specified areas by postcode for which automatic deferrals are available in relation to the lodgment and payment dates for the December monthly activity statements from the original due date of 21 January 2011 to 21 February 2011. If you would like us to check whether your business is eligible, please contact our office.

Fast tracking refunds for customers in flood affected areas

The ATO can fast track refunds for people affected by a natural disaster. Please contact Pitcher Partners for further information.

Extensions on payment of tax bills for customers in flood affected areas

Clients experiencing financial difficulties because of a natural disaster, can ask for more time to pay their income tax bill. This includes amounts owing on activity statements. We note that no interest will be applied to accounts where the ATO has recorded a deferral of the due date for payment. Where an arrangement to pay by instalments is entered into, interest will show on the account during the period of the arrangement. At the conclusion of the agreed arrangement, the ATO will remit the interest and adjust the account. Please contact Pitcher Partners for further information.

Where clients cannot afford to pay tax owing because they are suffering serious financial hardship, Pitcher Partners can assist in applying to the Relief Board for relief.

Assistance for Volunteers in flood affected areas

Volunteers, particularly those travelling interstate, may be given more time to pay their tax debts or lodge documents. Please contact Pitcher Partners for further information.

Lost Records in flood affected areas

After proof of identity has been established, the ATO will re-issue tax documents including:

- tax returns
- activity statements
- notices of assessment

They can also provide assistance in helping customers to reconstruct their records and make a reasonable estimate of their tax liability, however we recommend we assist you in this process.

Where customers have lost their tax file number, the ATO will allow people affected by natural disasters to use other information such as their date of birth, address details or bank account details to verify tax information. The ATO will also give these customers extra time to get the financial records required to lodge tax returns, activity statements and determine if they have any tax liabilities.

We note that fees charged by the banks for replacing bank records and providing any other service in regard to reconstructing records or providing information, are tax deductible in the year that those fees are charged.

LOSS OF PROFITS CALCULATION FOR INSURANCE CLAIMS

If you hold business interruption insurance (or similar), you may be eligible to claim for lost profits due to lost trading. We can assist you to calculate a reasonable estimate of your loss to submit to your insurance providers in support of your claim.

TAX IMPLICATIONS OF DESTROYED OR LOST STOCK, EQUIPMENT OR CAPITAL ASSETS

Stock:

Insurance compensation for loss of trading stock and profits

Any compensation received in respect of lost trading stock and loss of profits will be assessable.

Forced livestock disposal

Tax concessions are available to taxpayers who receive insurance payments in respect of lost or destroyed livestock which are held as assets of an Australian primary production business.

The concession enables the taxpayer to elect to spread or defer tax on profit from forced disposal or death of livestock.

There are two methods in which you can spread the insurance recovery:

- You can spread the profit on the disposal or death over the income year of the disposal or death and the next 4 income years (election to spread); or
- You can defer, including the profit in your assessable income, if you will be using the proceeds of the disposal or death mainly to replace the live stock (election to defer).

The elections must be made on or before the date for lodging the first return, where the effect of the election will be relevant.

Depreciable assets:

Balancing adjustments required for depreciable assets destroyed

If the taxpayer ceases to 'hold' a depreciating asset due to the asset being lost or destroyed, an assessable or deductible 'balancing' adjustment arises.

When a depreciable asset is lost or destroyed the amount or value received or receivable under an insurance policy or otherwise for the loss or destruction, is taken into account (excluding any GST component).

An amount is included in your assessable income if the amount you receive for the asset destroyed or lost, is more than the assets' tax depreciation written down value.

A deductible loss arises if less than the tax written down value is received for the asset destroyed or lost.

For example, if the asset's written down value at the time of the destruction was \$10,000 and \$12,000 was received in compensation for the loss, \$2,000 is included as assessable income. Subject to certain conditions being met, you may be able to defer tax on the \$2,000 by instead choosing to offset it against the cost of a replacement asset. Alternatively, if at the time of the destruction the asset's written down value was \$10,000 and \$8,000 was received in compensation, a \$2,000 deduction could be claimed.

Capital assets:

Loss or destruction of a capital gains tax asset

If a CGT asset is lost or destroyed CGT event C1 occurs.

You make a capital gain if the capital proceeds (i.e. insurance payments received) are more than the asset's cost base. Subject to certain conditions being met this taxable gain may be deferred, by buying replacement assets.

You make a capital loss if the capital proceeds are less than the asset's cost base. If no compensation is received for the lost or destroyed asset then the taxpayer will also make a capital loss.

A capital gain or capital loss will be ignored if the asset was acquired before 20 September 1985.

MAKING TAX DEDUCTIBLE GIFTS OF MONEY OR GOODS

Whilst donations of time are not able to be counted or valued as a tax deductible expense, certain donations of money or goods to various charities are. To be deductible, a gift must be money or property such as:

- money – \$2 or more
- property
- trading stock - trading stock disposed of outside the ordinary course of business

You should also ensure that the charity receiving your gift is registered as a deductible gift recipient, to ensure you receive a tax deduction.

Spreading a deduction of certain gifts or donations over five years

While a gift cannot add to (or create) a tax loss, you can elect to spread the tax deduction over five income years if it was a gift of money, or a donation of property valued at more than \$5,000 by the AVO. You will be required to make an election to do so in the year of the donation.

You must keep the election for five years after lodging the last tax return in which a deduction was claimed for the donation. Do not attach it to your tax return or send it to the Tax Office.

Assistance provided by employers to affected employees

Benefits that an employer may provide to affected employees could be considered emergency assistance and exempt from FBT if the benefits provided are emergency health care, meals, food supplies, clothing, accommodation, transport, temporary repairs or any similar benefit. This assistance is also tax free in the hands of the employee.

Benefits provided that may provide a long term benefit, such as replacing a motor vehicle, would not qualify under the exemption for emergency assistance.

Similarly, cash benefits provided to employees, may not qualify as emergency assistance, depending on the quantum of the amount provided. Please check with your advisors in relation to the tax treatment of any benefits you intend to provide, for both the employer and the employee.

FEDERAL GOVERNMENT ASSISTANCE

Financial assistance is available from the Federal Government. This assistance will be co-ordinated via Centrelink for families and individuals affected by the flood disaster.

Australian Government Disaster Recovery Payment

A one-off payment is available for people who have been adversely affected by a disaster. If eligible you can receive:

- \$1,000 per adult
- \$400 for each child (under 16 years of age)

This payment is not means tested; however time limits do apply for application and payment.

Disaster Income Recovery Subsidy

Financial assistance is available for employees, small business persons and farmers who can demonstrate they have experienced a loss of income as a direct result of the flooding and severe weather.

If eligible, you will receive

- \$469.70 per fortnight for a single adult
- \$424.00 per fortnight per adult who is a member of a couple
- \$508.20 per fortnight for a single adult with a dependent child
- \$388.70 per fortnight for a person who is under 21 years of age (subject to other circumstances)

This payment is not means tested; however time limits do apply for application and payment.

To assess if you are eligible for Federal Government assistance, we recommend you contact Centrelink.



STATE GOVERNMENT ASSISTANCE

Victorian – for families and individuals

Financial assistance is available from the Department of Human Services to households.

An Emergency Grant up to \$427 per adult, and \$213 per child, totalling \$1,067 per household is available. The grant can provide temporary accommodation, clothing, food, personal requisites and one-off transport costs.

The Emergency Grant is 'needs based', is not means tested and is not affected by the insurance status of the applicant. Emergency grant entitlements can be paid to recipients by a prepaid debit card.

A Temporary Living grant is available to people whose principal place of residence has been made uninhabitable by floods, and assists with the cost of temporary accommodation and living expenses when a principal place of residence is unfit to live in, or inaccessible for more than one week. A Temporary Living Expense Grant may be available up to a maximum of \$865 per week, for a total of up to \$8,650.

A Temporary Living grant is means tested.

A Re-establishment grant of up to \$17,300 is available to assist with the re-establishment of a household's principal place of residence. The Re-establishment grant has two components. A maximum of up to \$8,650 may be available for repairs to structural damage to a residence and up to \$8,650 may be available to replace essential household contents, such as furnishings and electrical goods.

A Re-establishment grant is means tested.

We recommend that you contact the Department of Human Services on 1300 650 172 for further information.

Victorian –Business, primary producers and not-for profit

Rural Finance is charged with administering schemes on behalf of the Commonwealth and Victorian Governments.

One-off Clean Up and Restoration grants are available to people who have been affected by the floods between September 2010 and January 2011. Grants of up to \$25,000 are available to eligible primary producers, small businesses and not for profit organisations who have suffered direct damage as a result of these events.

A Clean Up and Restoration grant for clean-up work that is subsequently covered by an insurance claim, is to be repaid.

Low interest loans of up to \$200,000 are available to eligible small business owners, primary producers and not-for-profits so that businesses can continue to operate.

For more information please contact Rural Finance on 03 5448 2600.



About Pitcher Partners

Pitcher Partners has a long history of servicing the needs of our clients.

We encourage you to contact us if we can help you in any way during this difficult time.

For further information please contact



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