Budgeting, Forecasting and Tax

The terms budgeting and forecasting are similar and often interchanged. Forecasting relates to looking at past figures and using this historical information to predict what the future will be. The term budgeting is a more precise form of forecasting which involves estimating what the planned future income and expenses will be, based on how the dental operations are expected to be managed in the future.

Most dental practices have seen a reduction in their revenues over the past six months since the closure of the CDDS. This is the case even where the dental practice was not heavily involved with CDDS patients. Dental practices that did little or no CDDS work did not budget or expect a decrease in their revenues. One of the main reasons for the decrease in dental revenues is that those dental practices that have lost their CDDS income are now actively pursuing other patients to fill the gap. This means there is much more competition between dentists and without CDDS patients there is less patient revenue to attract.

Even with an experienced team of accountants, economists and advisers the Federal Government was still budgeting for a $1 billion surplus which dramatically changed to a $17 billion deficit. If the Federal government can get it so wrong what chance does a small dental practice have of getting it right? The answer is not whether a budget is right or wrong, but more importantly **to have a budget** so that you can take the appropriate action when you know you are facing a deficit. Not knowing where you are or how you are going financially is as dangerous for big business as it is for a small dental surgery.

To help get your budgeting and tax planning right you will need to consider the impact of the following Federal Budget announcements;

Self Education Expenses

The allowable tax deduction for self education expenses by individual taxpayers may be limited to $2000 per year from 1 July 2014. The announcement was all of one page long and very scarce on detail. It is expected that the limit will apply to **<u>all</u>** education related costs including travel and accommodation. While the government's intentions are understandable, the measure runs contrary to the policy of improving our education and workforce skills. The proposal is wide reaching and will also catch those professional development activities that are **required** in order to maintain vocational qualifications. As announced the deduction limit **won't apply to employers** and therefore should not apply to dental surgeries where a service trust is engaged. As the changes relate predominantly to **employees**, it is possible that dentists working as **ABN contractors** may also be excluded. The writer believes that this measure will be reviewed and most likely watered down following submissions from numerous professional bodies and educational institutions.

Medical Expenses Tax Offset

Currently, individual taxpayers may claim a 20% tax offset for eligible out of pocket medical expenses in excess of $2060 per year. This means, once a taxpayer has reached the $2060 threshold they will receive a 20% rebate (from the Tax Office) on every additional dollar spent. This offset will be phased out such that if you do not make an eligible claim in 2013 you cannot make any future claims and no claims can be made after the 2015 year. Dentists may wish to make patients aware of this fact as the patient may decide to **bring forward** treatment to ensure they have the ability to claim in the current year and then also potentially in the following year.

Tax Rates

The individual and company tax rates will remain the same for 2014. From 1 July 2014 the Medicare levy is proposed to increase from 1.5% to 2%. Discounts for early repayment of student HELP loans will be abolished from 1 January 2014. The baby bonus will be replaced on 1st March 2014 with changes to the Family Tax Benefit Part A.

Superannuation

There were no further changes in the Budget following 5th April Super Reform announcements which basically introduced tax on pensions paid from superannuation funds with taxable income in excess of $100,000 per person as well as potential capital gains tax on assets held within the fund. The measures announced in the previous Budget for an extra 15% contributions tax where the taxpayers' income exceeds $300,000 are yet to be legislated but still expected to apply for 2012/13. Tax deductible super contributions will increase to $35,000 for those aged 60 or more from 1st July 2013. The Superannuation Guarantee rate will increase from 9% to 9.25% from 1st July 2013.

If you are concerned over your practices' performance or need some assistance with tax planning, call Albert Gigl on (03) 8825 5400 for an appointment. As a member of ADAVB there is no charge for your first consultation. For your convenience MW Partners is located on the same floor as the ADAVB at 10 Yarra Street South Yarra.