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2013 Budget Overview

Treasurer Wayne Swan has handed down the 2013/14 Federal Budget and forecasts a budget deficit of \$18 billion. This is in stark contrast to his \$1.5 billion surplus that he predicted in the previous budget. Mr Swan blamed the high Australian dollar, lower commodity prices and the fact that the mining tax revenue will be less than 10% of the original forecast.

The Treasurer expects a reduced deficit of \$10.9 billion in 2014/15, breakeven in 2015/16 and a return to a modest budget surplus in 2016/17. While business conditions remain sluggish we have breezed through the GFC compared to the rest of the world. Being a major supplier of coal and iron ore we have enjoyed 21 years of uninterrupted economic growth thanks to a mining boom fuelled by strong demand from China.

The forecast for economic growth in 2013/14 is 2.75% (revised down from 3%) which compares favourably with the US (2%), Japan (1.25%) and Euro zone (0%). Australia's net Government debt will peak at 11.4 percent of GDP whereas the US will be around 90 percent, Japan 130 percent and Euro zone about 100 percent. We are the envy of the rest of the developed world and the unemployment rate is expected to increase slightly from 5.5% to 5.75% by June 2014.

As expected, the budget provided no pre-election hand-outs. Instead, a cut to a range of benefits to middle income families, the deferral of tax cuts, the \$5,000 baby bonus is to be scrapped (and replaced by a significantly reduced payment which will only be available to taxpayers who qualify for Family Tax Benefit



Part A) and the Medicare Levy has been increased by 0.5% to fund the National Disability Insurance Scheme. Last year small business benefited from accelerated write-offs for buying capital equipment, however, the 2013 Federal Budget provided very few incentives.

Of course, with the September election around the corner we will just have to wait and see if these Budget announcements actually come into play.

Personal Taxation

Individual Tax Rates

There will be no change in the marginal tax rates already legislated for individuals for the 2013, 2014 and 2015 income tax years.

The Government has also indefinitely deferred the previously proposed increase in the tax-free threshold to \$19,400 from 1 July 2015. The tax rates for resident individuals for the 2013 to 2015 income years (excluding the Medicare levy) will remain as follows:



Taxable Income	Tax Payable
0 - \$18,200	Nil
\$18,201 - \$37,000	19% of excess over \$18,200
\$37,001 - \$80,000	\$3,572 + 32.5% of excess over \$37,000
\$80,001 - \$180,000	\$17,547 + 37% of excess over \$80,000
\$180,001+	\$54,547 + 45% of excess over \$180,000

Personal Taxation - continued

Medicare Levy

Funding for the National Disability Insurance Scheme (Disability Care) was confirmed in the Federal Budget and will be funded by an increase of 0.5 percent in the Medicare levy (to 2 percent) from 1 July 2014.

The Medicare Levy low income thresholds for the 2012/13 income year will increase to \$20,542 for individuals, \$32,279 for pensioners eligible for the Seniors and Pensioners Tax Offset and \$33,693 for families. The additional family threshold amount for each independent child or student increases to \$3,094.



Net Medical Expenses Tax Offset

The Net Medical Expenses Tax Offset (NMETO) will be phased out from 1 July 2013 through a combination of reducing the range of medical expenses that qualify for the offset and limiting the number of taxpayers who qualify for the offset.

Individuals will only be able to claim the NMETO in the 2014 and 2015 income tax years if they claimed the offset in the prior year. From 1 July 2015, the NMETO will be restricted to out of pocket medical expenses relating to disability

aids, attendant care and aged care expenses. The NMETO will be removed from 1 July 2019 when Disability Care Australia will be fully operational.

In the 2013 income tax year, individuals can claim a tax offset of 20% of all net medical expenses over \$2,120.

Self-Education Expenses

Work related self education expense deductions will be capped at \$2,000 from 1 July 2014. Previously there was no cap.

The proposal will limit the amount that individuals can claim for self education expenses incurred in undertaking a course or activities that have a direct connection to their current work activities. Accordingly, expenditure on course and tuition fees, textbooks, journals, computers, stationery and travel and accommodation costs will be limited from 1 July 2014.

Employers who provide or fund work related education and training for employees will not be liable for fringe benefits tax regardless of the amount unless the employee salary sacrifices to obtain these benefits.

The existing discounts which apply to up-front and voluntary payments made under the Higher Education Loan Program (HELP) will be removed from 1 January 2014.

Baby Bonus Abolished and 'Work Test' under the Paid Parental Leave Scheme Extended



The Baby Bonus will be abolished from March 1, 2014 in favour of new support for families of newborns through the Family Tax Benefit Part A (FTB Part A). The Government will increase these payments by \$2,000, to be paid in the year following the birth or adoption of a first child or each child in multiple births, and \$1,000 for second or subsequent children. The additional FTB Part A will be paid as an initial payment of \$500, with the remainder to be paid in seven fortnightly instalments.

The Baby Bonus currently cuts out at an earnings threshold of \$150,000, but the earnings cut-off for FTB Part A is \$94,316 so the Government's move effectively limits a high proportion of top earners' access to the financial assistance for newborns. Families accessing the Government's Paid Parental Leave (PPL) scheme, which remains unchanged, will not be eligible for the additional FTB Part A component. However, the work test under the PPL scheme will be extended so that parents will be able to count periods of Government PPL as "work", just like employer-funded PPL.

Superannuation

The Budget contained little new superannuation news, instead re-stating measures already announced by the Government on 5 April 2013 including:

Changes to the Concessional Contributions Cap

The Government proposes to change the concessional contribution caps so that taxpayers aged 60 and over will have a \$35,000 cap from 1 July 2013, while Taxpayers aged 50 and over will have a \$35,000 cap from 1 July 2014. For remaining taxpayers the cap will

remain at \$25,000. The Government's previous plan to have a \$50,000 concessional cap for individuals aged 50 and over with less than \$500,000 in superannuation has been permanently scrapped. - Continued next page

Superannuation - continued

Excess Concessional Contributions Tax

From 1 July 2013 individuals will be able to withdraw concessional contributions above the cap (currently \$25,000).

Withdrawals will be taxed at the individual's marginal rate plus an interest charge instead of at the top marginal tax rate of 46.5%. It is not clear if the excess concessional contribution will still be counted towards non-concessional contribution caps. On a practical level the proposal may provide some relief for individuals on tax rates less than the top marginal rate that make excess concessional contributions. However, for taxpayers on the top marginal tax rate the measure provides no relief.

Tax-free Pension Earnings Capped at \$100,000

From 1 July 2014, earnings on assets supporting income streams above \$100,000 per year will be taxed at the rate of 15 percent. Currently all earnings from assets supporting superannuation income streams are tax free.

The following transitional arrangements will apply for capital gains on assets purchased before 1 July 2014:

- *For assets the Fund held at 5 April 2013 only the capital gains that accrue after 1 July 2014 will be counted;*
- *For assets purchased between 5 April 2013 and 30 June 2014 inclusive, the Trustee must include the lower of the total gain or the gain accrued after 1 July 2014; and*

- *For assets purchased from 1 July 2014 the entire gain will be included.*

All capital gains included in the above measures will be taxed at 10%.

Other proposed superannuation reforms previously announced on 5 April 2013 include:

Lost superannuation transfers - the account balance threshold above which lost and inactive superannuation accounts must be transferred to the Tax Office will be increased from \$2,000 to \$2,500 from 31 December 2015 (and to \$3,000 from 31 December 2016).

Tax Compliance

Data Matching and Third Party Information

The Government will provide \$77.8 million over four years to the ATO to improve compliance by expanding data matching with third party information. This will cover not only domestic activities but extend to Austrac reported transactions.

Treasury said the information provided will also improve the pre-filing of tax returns and the measure will establish new and strengthen existing reporting systems for:

- *taxable Government grants and certain other Government payments*
- *sales of real property, shares and units in managed funds*
- *sales through merchant debit and credit services*

- *managed investment trust and partnership distributions, company dividend and interest payments, and*
- *transactions reported to the ATO by the Australian Transaction Reports and Analysis Centre*

Trusts Taskforce

The Government has announced nearly \$70 million in funding over 4 years for an ATO taskforce to target the use of Trust structures by wealthy individuals. The Assistant Treasurer announced that the ATO would focus on arrangements to avoid and evade tax, including mis-characterising transactions, concealing income, entering contrived loan agreements and artificially reducing trust income.



Dividend Washing

The Government has announced that the practice of 'dividend washing' (or dividend double dipping) will be specifically legislated against from 1 July 2013. This practice involves a shareholder (often a superannuation fund) selling shares ex-dividend and then re-acquiring equivalent shares which still carry the right to a dividend (known as cum-dividend shares). In effect the shareholder receives two sets of franking credits for the same parcel of shares.

Business Taxation

Increase in ASIC fees

The Government has revealed an increase in the cost of registering a business name with the Australian Securities and Investments Commission (ASIC). Fees increase from \$30 for one year and \$70 for three years to \$32 and \$74 respectively.

Large Entities Subject to Monthly PAYG Instalments

The Government will extend the requirement to make monthly PAYG instalments for all large entities (turnover of \$20 million or more) in the PAYG instalment system. This includes trusts, superannuation funds, sole traders and large investors. Other entities will be progressively brought in from the

third tranche of the already announced move to monthly PAYG instalments for corporate entities:

Entities, other than head companies or provisional head companies, that have a turnover of less than \$100 million and report GST on a quarterly or annual basis will not be required to pay PAYG instalments monthly. In addition, entities in the taxation of financial arrangements (TOFA) regime will assess their entry to monthly instalments using a modified turnover test, based on their gross TOFA income, rather than their net TOFA income.

Entities, other than head companies or provisional head companies, that have a turnover of less than \$100m and report GST on a quarterly or annual basis will

not be required to pay PAYG instalments monthly.

Tightening measures

Business taxation changes introduced in the 2013/14 budget include a tightening of measures that aim to prevent multi-national businesses shifting tax deductible loans to Australian subsidiaries. The Government said it will "address

aggressive tax structures that seek to shift profits by artificially loading debt into Australia". Other loopholes and abuses include tightening the thin capitalisation rules and removing the interest expense deduction for deriving certain foreign exempt income. This and related measures will apply from July 1, 2014.

Entity type	Turnover	Move to Monthly PAYG instalments
Corporate Tax Entities	More than \$1 billion	1 January 2014 (unchanged)
Corporate Tax Entities	\$100 million or more	1 January 2015 (unchanged)
Corporate Tax Entities	\$20 million or more	1 January 2016
All Other Entities	\$1 billion or more	1 January 2016
All Other Entities	\$20 million or more	1 January 2017

\$17 billion 'Lost' - Is Some of it Yours?

The Government announced last year that after 31st May 2013, 'inactive' bank accounts would be transferred to ASIC. The threshold for 'inactive' has been lowered from seven years to three years. Although this money will be recoverable, the process may take many weeks if not months.

Additionally, the Government announced in its proposed Superannuation Reform package an increase in the threshold for 'lost' super from \$200 to \$2000. Super Funds have to transfer money from accounts to the ATO if they cannot contact the owner, if the account has

been inactive and the balance is below \$2,000.

The positive outcome for account holders of 'lost' super is that many super accounts shunt funds into eligible rollover funds with fees up to 7 percent, unlike a normal large well-run super fund of around 1.5 percent. This move should limit erosion of 'lost' funds by fees.

To ensure you don't lose track of your super or deposit accounts, make sure your institution has your Tax File Number and always let them know when you change address. When

changing jobs, give the new employer details of the super fund you want your super guarantee paid into. Or roll your old super account balance into your new job's super fund.

Each fund has fixed costs, irrespective of your account balance, so consolidating your funds will save fees and charges

ASIC's **MoneySmart** website will let you search for lost bank accounts, shares or life insurance and the ATO's **SuperSeeker** service lets you find out if some of the \$17 billion in unclaimed superannuation belongs to you.

ATO Data Matching Update

Data-matching or comparing the same piece of information from two different sources has expanded rapidly in recent years. Four years ago, the ATO matched 50 million transactions and this year it will match 500 million.

Most business owners are aware of the Tax Office's data-matching activities but technology is revolutionising the ATO's compliance capabilities. With a few mouse clicks, the ATO's \$800 million computer system can uncover abnormalities and irregular transactions that used to involve up to seven weeks of manual work. With each mouse click, 300 analysts in the ATO's elite fraud squad can see new links in the data that is helping them trace potential taxable transactions or fraud they might have overlooked. Some may be surprised to know the depth and spread of the data the ATO use.

Historically, the data-matching programs linked such things as property sales, share sales, investment income and car registration records. However, the ATO continues to widen the net to include the building industry, coffee suppliers, contractor payments, credit/debit sales, offshore bank accounts and social security payments. The computer can now access every piece of data about your affairs including every dollar you've earned, properties, cars or boats you've purchased and your business connections including the tenants in your investment property and the members who sit on your company's board. The computer matches tax records against third party data received from banks, share registries and other government agencies such as Centrelink and the Australian Securities and Investments Commission, checking employment, dividend, rental and other income.

While the location of the computer system near Sydney's CBD is a closely guarded

secret, the security system is state of the art. Entry is only permitted with an escort and photo identification through futuristic cylindrical tubes. Those who gain entry into the highly secure site are subject to a number of checks on exit, including being weighed to ensure no weight was gained that might indicate a person could be smuggling out sensitive data.

The ATO recently announced that it would utilise data-matching programs specifically targeting online sellers. This would include Individuals who have made sales of \$20,000 or more in the 2010/11 financial year through various online selling websites such as ebay. The kinds of information to be collected will include:

- ✓ User identification name and number
- ✓ Name
- ✓ Address
- ✓ Telephone number
- ✓ Date of birth
- ✓ Email address
- ✓ Registration date
- ✓ Number and value of monthly sales
- ✓ Australian Internet Protocol address
- ✓ Bank account details



The ATO reports they have targeted a select number of online selling sites because they represent some of the largest market participants in Australia. These groups also track the sale/purchase price of goods and services through their websites.



Around 11,000 individuals will have their records matched to identify non-compliance with lodgement, payment and correct reporting obligations under taxation law, including undeclared income and GST obligations.

eBay Businesses Crackdown

As of May 2013, the ATO also reports that part of its permanent compliance program will include data matching Centrelink records against eBay users. The Government claims that the pilot program has identified that there are people claiming social security benefits whilst running what it considers to be a successful online business.

The intention is not to catch out people selling a few second-hand items but instead identify people who earn large amounts from eBay, while also claiming support from the Government. The pilot program identified around 100 cases warranting further investigation.

Employers Being Cross-Checked Too...

Also new to the ATO data-matching program is the capture of the names and addresses of employer entities from state and territory WorkCover and WorkSafe sources for the 2011 to 2013 financial years.

The data provided by WorkCover and WorkSafe will be compared with tax records to identify employers that may not be complying with their registration, lodgement and payment obligations under taxation law. There may also be some referrals back to the state and territory authorities as the ATO said it may also disclose information about employers that may not be meeting their workers' compensation obligations.

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Family Business or Family Feud?

Legendary comedian W.C. Fields is credited with the line, “Never work with children or animals.” While a lot of people in television agree with him, in business there is an argument to say that you should never work with family!

Family conflict is nothing new to business. German brothers Adolf and Rudolf Dassler founded a shoe company in a room of their mother’s house in the town of Herzogenaurach in 1924 but it soon became apparent that they couldn’t work together. The relationship soured during World War II when Rudolf was sent to the front and on his return he was picked up by U.S. soldiers and imprisoned for about a year. He reportedly was convinced that his imprisonment was orchestrated by his brother and they split in 1948. Rudolf Dassler founded the company that would become Puma while Adi formally registered the Adidas brand in 1949. The rivalry between the brothers even divided the town of Herzogenaurach, where Puma and Adidas still have factories on opposite sides of the river. Closer to home, the feud between Bob Jane and his son Rod recently hit the headlines again.

Who will take over the reins of family business?

Money might be the root of all evil but poor communication between generations can be cancerous in a family business.

For example, a recent report suggests that many families simply assume that the children will take over the business. Of the 320 family owned businesses surveyed, 93% of the CEOs were intending to transfer ownership within the family and only 7% planned to hand over to outsiders (sell the business). The survey also found that 38% of the respondents intend to transfer wealth within the next five years, 16% within 1-3 years and 16%

didn’t know. Despite these statistics, only 39% have a succession plan in place.

The dynamics of running a family business are very different to publicly owned businesses. For example, the average tenure of a CEO is six years while many family businesses have the same leaders for 20 or 25 years. In some cases this could mean the business could struggle to adapt to changes in technology and consumer behaviour.

Guidelines For Employing Family Members

Family businesses face some unique challenges. The key recruitment method is often relationship driven rather than the normal candidate assessment process. Paying family a generous salary is tempting but non-family employees might get the message that nepotism pays better than performance. They might think that no matter how much effort they put in they will never be compensated as well as the family members. Eventually staff will leave because they recognise it is not a ‘level playing field’. Some children feel obligated to join the business while some parents demand they join. This can backfire because you can end up with a batch of managers who aren’t really interested in working in the business. Family members can also become trapped in the business because even if they hate their job, they know they can’t attract the same level of compensation in the open market.

It’s natural for the next generation of family members to join the business at a relatively young age. This early exposure will help them make an informed career decision but a job in the business shouldn’t be a birthright and we recommend you put some guidelines in place including:



Prior to employing

1. Obtain impartial advice—refer to an advisory board or consult with other family business owners.
2. Have written guidelines and all staff, including family members must sign and adhere to them.
3. Family members must have at least 2 years prior work experience before commencing work in the family business.

After the Hire

1. Performance Reviews need to be conducted regularly and honestly.
2. Insist on further training and education with a focus on enhancing the family member’s skills.
3. Have the courage to fire the family member if they are under performing.
4. Ask yourself if you sold your business today, who would the new owner keep and how much would they pay them?

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2013 - Individual Tax Returns

Income

- Gross salary, wages, allowances, benefits, earnings, tips and Directors Fees.
- Income from business activities.
- PAYG Payment Summaries.
- Details of any non-cash benefits received.
- Lump sum and termination payments. All documentation should be provided including an ETP Payment Summary from the employer or fund.
- Government Social Security payments, including pensions, unemployment and sickness benefits.
- Details of any CGT asset sales (e.g. shares and real estate). Please include dates of, and costs associated with, acquisition and disposal (You can save tax if you qualify for the variety of CGT concessions).
- Annuities, including allocated pensions.
- Income from trusts and partnerships. Statements of distribution should be provided where appropriate.
- Rental income.
- Interest and dividends received and any tax deducted. Include details of franked dividends (i.e. imputation credits).
- Foreign source (employment and pension) income and details of any foreign tax credits.

Deductions

- Investment and property expenses (carefully detail interest and repair claims).
- Subscriptions (not including sporting or social clubs).
- Employment related expenditure such as work-related motor vehicle, self-education, protective clothing, tools, uniform and laundry expenses.
- Donations of \$2 and over.
- Income Protection Insurance Premiums.
- For self-employed persons, details of any superannuation contributions made.
- Tax Agent Fees and other accounting/tax audit fees.
- Special deductions (Australian films, investment shelters and agribusiness-type schemes).
- Bank fees (where the credit or deposit represents assessable income).
- Unrecouped prior year losses.

Rebates

- Private health insurance statement.
- Details of superannuation contributions where no tax deduction can be claimed.
- Any changes in dependants (income of spouse should also be provided).
- Details of any income received in a lump sum which was accrued in earlier income years (e.g. assessable pensions).



- Net family medical expenses if they exceed \$2120 in total (i.e. medical expenses paid net of reimbursements from Medicare and/or health fund).
- HECS Debt details.

New Clients

- Last Year's Notice of Assessment and Tax Return (if available).

8 Most Common Errors in Income Tax Returns

1. Omitting Interest Income
2. Incorrect or Omitted Dividend Imputation Credits
3. Capital Gains/Losses are Incorrect or Omitted
4. Understating Income
5. Home Office Expenses
6. Depreciation on Rental Property Fixtures and Fittings
7. Depreciation on Income Producing Buildings
8. Borrowing Costs associated with Negative Gearing

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2013 - Companies, Partnerships, Trusts and Other Business

Income

- Trading Income.
- Other Income (e.g. Rent, Interest, Royalties).
- Stock on Hand at June 30, 2013 (and basis of valuation) – note any obsolete stock.
- Work-in-Progress at June 30, 2013.
- Primary Producer subsidies (if tassable).
- Details of CGT assets (e.g. shares and real estate) sold, including dates of, and costs associated with acquisition and disposal.
- Dividends, including details of franking credits.
- Income from foreign sources including details of any foreign taxes paid.

Deductions

- Repairs and maintenance.
- Salaries, including fringe benefits.
- Fringe benefits tax paid.
- Rates, land taxes and insurance premiums.
- Advertising expenses.
- Interest on borrowed monies.
- Deductions relating to foreign source income.
- Prepaid expenses (subject to transitional rules).
- Retirement payments and golden handshakes.
- Bad debts actually written off during the year.
- Donations of \$2 and over depending on the recipient.
- Commissions.
- Legal expenses.
- Lease or Chattel Mortgage payments on motor vehicles and equipment.

- Losses of previous years (or intra-group transfers).
- Superannuation contributions.
- Subscriptions.
- Car expenses (remember to include petrol, repairs and parking and maintain a log book where necessary).
- Tax agent's fees and other accounting and tax audit fees.
- Royalties paid.
- Details of the destination and purpose of any interstate or overseas trip. Expenses must be fully documented where travel involves at least one night away from home. Travel diaries should be included where travel exceeds five nights.
- Research and development expenditure.
- Bank fees (where the credit or deposit represents assessable income).

Liabilities

- New loans taken out during the year and their purpose, including any new lease or chattel mortgage agreements.
- Statements from the lending authority detailing the opening and closing balances of existing loans during the financial year.
- Provisions for long service and annual leave.
- Creditors at June 30, 2013.
- Details of loan accounts to directors, shareholders, beneficiaries and partners.
- Accrued expenses (e.g. audit fees, interest payments).
- Commercial debts forgiven.

Assets

- Details of depreciable assets acquired and/or disposed of during this income year, including:
 - type of asset;
 - date of acquisition;
 - consideration received/paid.
- Lease commitments.
- Debtors at June 30, 2013.
- Commercial debts forgiven.

Additional Information Required

- Franking account details/movements.
- Overseas transactions, exchange gains/losses.
- Private companies – remuneration or loans to directors, shareholders and their relatives.
- Changes to the capital of the company.
- Whether family trust elections have been made

Note:

To ensure that you obtain the maximum deductions to which you are entitled and in consideration of the penalty provisions, FULL DETAILS of any claim should be provided and supporting documentation made available. For employee taxpayers and for travel and motor vehicle claims by self-employed taxpayers, documentation must be a receipt, tax invoice or similar document which contains certain details. For other taxpayers, documentation may comprise receipts, dockets, diary notations or reasonable and supporting estimates.

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