

Newsletter

June 2010



Bruce & Neryl Graham
Accountants

We hope this Newsletter will be of some interest

Budget Announcements & Media Releases

There is always a lot of confusion after Budget Night. We need to remember that announcements on Budget Night are not law. We have listed some of the announcements below:

- Simplified Tax Returns – there is a proposal to allow some people to ‘click & send’ their personal tax return via the internet. This might sound simple but you forfeit your right to claim tax deductions over the standard deduction limit of \$500 imposed by the ATO.
- 50% tax break on interest earnings up to \$1000 from July 2011 – this is not that big an issue. It might save you \$75 to \$150 tax in a full year.
- Medical expenses threshold to increase from \$1500 to \$2000 from July 2010 – this means that you lose \$100 worth of rebates that you are currently entitled to receive
- Superannuation Co-Contribution \$1 for \$1 up to \$1000 locked in – this is still worth doing for low & middle income earners
- National system of Registration of Business Names – this will replace the current state-based agencies
- Employer superannuation contribution to increase from 9% to 12% - to be phased in from July 2013 to June 2020
- Company tax rate to drop from 30 % to 28% - from July 2012 for most small companies
- The 40% additional tax on the mining industry has caused a lot of flack. If this proposal is not passed then we can look forward to massive revisions of current Budget announcements.

The Henry Tax Review

Most of the recommendations have not yet been adopted, but may eventually see the light of day. Many of the Henry Review recommendations are considered, by most tax experts, to be essential if we are to improve the efficiency of our tax system.

Message from the Tax Office

Beware of dodgy schemes offering unrealistic tax benefits or early access to your superannuation. This is the time of year the scumbags come out of their hole. Be careful.

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Year 2010 Stuff

New ATO Computer System Introduced

Some clients will already be aware that the ATO introduced a new computer system in January this year. To the surprise of all accountants, the ATO has also changed the layout of the Notice of Assessment that accompanies your tax refund or bill. This new notice is now 2, 3 or 4 pages instead of the usual single page document. The lunatics are now officially in charge of the asylum.

The introduction of the new computer system was anything but smooth. Massive delays in the issuing of tax refunds prompted apologies by the Tax Commissioner on national television and in the newspapers. Let us hope that the system has all of the bugs fixed before the new tax season really gets underway.

Adjusted Taxable Income (ATI)...your real income

From 1 July 2009 there have been changes to the various income tests used to means test your entitlements to some rebates, tax concessions and Medicare levy surcharge. The changes may also affect your Child Support obligations and the repayments some students are required to make to the Higher Education Loan Program. This new test is called your 'Adjusted Taxable Income' (ATI).

Salary sacrificed amounts paid into superannuation and losses from rental properties are now part of the revised ATI test and may result in fewer concessions being available to you this year. On this year's Payment Summary you will find that your employer will report the amount that you salary sacrificed into superannuation. This will also help the Tax Office determine your ATI. Basically, the ATO and some other agencies are making it 'harder to beat the system' and you may find that some tax concessions and other benefits will be reduced or eliminated. Salary sacrificing into superannuation to minimise Child Support obligations is now a thing of the past.

Foreign Earnings

Up until this year most foreign earnings were exempt from tax in Australia. If you know anyone working overseas, they will need to see an accountant regarding the new rules about tax on those foreign earnings. This is going to be messy.

Industry Benchmarks

The ATO is now relying heavily on what it calls 'Industry Benchmarks' to initially determine whether you are a candidate for an audit. We have already received an ATO letter commenting on the possibility that one of our clients is 'different' to others in that industry. Different is not a problem if there are valid reasons. The ATO thinks that 'different' means you are not telling the truth. The ATO is using these 'benchmarks' to help determine if you are declaring all of your income. Guilty until proven innocent. Talk to us about your industry.

Business Name Registrations

Is your business operating under a business name that is not registered? Did you forget to renew your business name registration? Currently the Office of Fair Trading looks after Business Name Registrations. If you are not sure what you need to do, give us a call.

Fair Work Australia

If you employ staff you need to get on top of this very quickly. There were law changes that came into effect on 1 January 2010. There are some 'transitional' rules to 30 June 2010 and some others to 1 January 2011. Rules regarding leave entitlements have changed. Special leave entitlements to pregnant women make for interesting reading. Unfair Dismissal rules have also changed. Rates of pay are likely to be different than those you are currently paying. A pay increase for lower wage earners has just been announced and is effective from 1 July 2010.

The bottom line is that there has been a major change in Awards. There were about 4500 Awards and now there are only about 120 'Modern Awards' across Australia. You now need to find out which Award covers your employees. These Awards are also to be read in conjunction with National Employment Standards (NES).

Go to www.fwa.gov.au and have a look.

If you cannot work your way through the website ring:

- NSW Industrial Relations on 9020 4611 or
- Fair Work Ombudsman on 131394

Employee v Contractor

The ATO has devised a web-based tool to assist business people work out if a worker is an employee or a contractor. This seems like a bit of overkill to us. While most people already know the difference many choose to engage 'subbies' because they think they can escape the need to pay Workers' Compensation premiums and the 9% Superannuation. The ATO position is clear. They want workers put on wages and to receive their appropriate workers' compensation cover and superannuation support. If you are engaging subcontract workers who might reasonably be regarded as employees you should talk to us.

Superannuation Reform

Up to 30 June 2009, eligible people under 50 years of age could claim up to \$50,000 in tax deductible contributions. The limit was \$100,000 for those aged between 50 & 65 years of age. From 1 July 2009 these limits were *halved*. Be careful that you have not been in breach of the rules by contributing too much. Before you can claim a deduction for superannuation contributions you must provide your fund with a Notice of Intent to Claim a Tax Deduction. You cannot claim a deduction in your tax return until you receive an acknowledgment from your fund.

If you do not wish to claim a tax deduction for some of your contributions you can also make undeducted contributions of up to \$150,000 per year. Superannuation is constantly changing so don't rely on what you have previously been told...get more advice.

Self Education Deduction

There has been a lot of media attention given to a court case where a university student, who was receiving Youth Allowance, was successful in claiming a deduction for her university expenses. The Tax Office has traditionally rejected such claims and is fighting this case due to its potentially widespread impact. Talk to us if this matter is of interest to you or your family.

50% Education Expenses Rebate

Expense limits increased from \$750 to \$780 for Primary School and from \$1500 to \$1558 for High School in the 2010 tax year. Do you have receipts for your children's primary & high school education expenses from 1 July 2009? School fees, uniforms and excursions are not part of the deal but equipment, laptops, software, books, internet fees & stationery are acceptable. Rule up some columns and make a list using the expense categories just mentioned. You need a separate list for each child. We'll work it out from there.

ATO Payment Concessions

The ATO has been very generous in recent months with payment concessions. If you are having trouble paying an Activity Statement debt the ATO may offer you a chance to enter into an arrangement to pay off the debt. Unfortunately, the current 'interest free' repayment concession ceases on 30 June 2010. You need to contact the ATO on 131142 or 137226 (automated self help service) to negotiate a suitable repayment. It is important to know that if you default on a current 'interest free' arrangement then the interest requirement kicks in. Remember, that one day late is considered to be a default.

ATO Audits/Reviews

The ATO has been given more than \$100 million over the next 4 years to conduct audits in the 'cash economy' and almost \$340 million to address GST compliance problems. We can expect to hear from ATO auditors a lot more in the coming years. It is interesting that the introduction of the GST back in July 2000 was going to eliminate the 'cash economy'.

Bookkeeping

A bookkeeping issue that frequently arises is choosing a bookkeeping method because it was recommended to you by a well-meaning friend. The method used by your friend will not always suit your business or fit in with your own personal bookkeeping skills. Your friend doesn't pay us to clean up the mess...you do.

When we recommend a particular method of bookkeeping, we are actually picking the method that suits your needs, not ours. Some clients prepare paper-based records, while others use very basic bookkeeping software. There are a number of clients who use more sophisticated software applications. Not all software is perfect, but we try to recommend the right software for you. Please remember that glitches in the software are the software provider's problem. While we might recommend it, we do not guarantee it.

Keep in contact

Clients who keep in touch with us are the one's who benefit most from our experience. If you choose to ring the Tax Office be prepared to get a different answer every time you ring. If you want the correct answer we suggest that you ring us in the first place.

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