

PRACTICE UPDATE



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SEPTEMBER 2015

THIS EDITION

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ATO warns over-claiming is easier to detect than ever

In relation to 2014/15 individual income tax returns to be lodged this year, the ATO says it will be focusing on:

- unusually high work-related expense claims across all industries and occupations;
- expenses claimed that have already been reimbursed by employers; and
- claims for private expenses such as travel from home to work.

It said that the ATO's ability to identify and investigate claims that differ from the 'norm' is improving each year at a rapid rate.

Every return is scrutinised and it is becoming a lot easier to identify claims that are significantly higher than those claimed by people with similar occupations and employment income.

SuperStream date extended for medium to large employers

Although all large and medium-sized employers were meant to be ready for SuperStream by 30 June this year, the ATO has advised that, for those who are not yet ready, it will extend that date by four months until 31 October 2015.

Access to the Small Business Superannuation Clearing House (SBSCH) has been expanded to all small business entities regardless of the number of employees they hire.

ATO increases focus on rental property deductions

The ATO has advised that it will have an increased focus on rental property deductions this tax time.

It says that it will be paying closer attention to excessive deductions claimed for holiday homes in 2015, and will also be actively educating rental property owners about what they can and cannot claim.

For example, the ATO will be writing to rental property owners in popular holiday locations, reminding them to only claim the deductions they are entitled to, for the periods the property is rented out or is genuinely available for rent.

Holiday homes

The ATO said that it recently amended a taxpayer's return to disallow deductions claimed for a holiday home after discovering that:

- the taxpayer rented the home to family and friends during the year at less than market rate;
- except for a brochure which was only available at the taxpayers' business premises, there were no realistic efforts to let the property;
- the nightly rent advertised was much higher than that of surrounding properties; and
- the pattern of income did not match the advertised rate, or the requirement for a five-night minimum stay.

The ATO decided the property was mainly used by the taxpayer, and deductions were limited to the amount earned from family and friends.

Depreciation for farmers brought forward

The May Budget provided that from 1 July 2016, Australian farmers would be able to claim a tax deduction on capital expenditure incurred on:

- water facilities;
- fodder storage assets; and
- fencing.

Farmers would be able to fully deduct the cost of water facilities and fencing in the year they were purchased, and deduct the cost of fodder storage assets over three years.

The Treasurer has now announced that this measure will be **brought forward** to acquisitions of these assets after **7.30pm 12 May 2015**.

Farms with turnover of less than \$2 million are also eligible to immediately write-off all asset purchases up to \$20,000.

Three more tax changes for small business

The government has introduced legislation for the following three small business measures that, if passed, will apply from 1 July 2015:

- A tax offset to individuals who run small businesses (with an aggregate annual turnover of less than \$2 million), or who have a share of a small business' income included in their assessable income.
- The tax offset is available to individuals, partners, or beneficiaries of a trust that is a small business entity.
- The tax offset is 5% of the income tax payable on the portion of an individual's income that is small business income, capped at \$1,000 per annum.
- An immediate deduction for some business start-up expenses, such as legal advice and registration fees, including government fees and charges as well as costs associated with raising capital.
- An exemption from FBT where small businesses provide an employee with more than one work-related portable electronic device, even where the devices have substantially identical functions.

Change to the way taxpayers claim work-related car expense deductions

Currently, taxpayers have an option to use one of four methods to determine their work-related car expense deductions.

The government is proposing to reduce the number of methods by removing the *'12% of original value method'* and the *'one-third of actual expenses method'*.

These methods have been used by fewer than 2% of those who claim work-related car expenses.

The other two methods, the *'cents per kilometre method'* and the *'logbook method'* are being retained.

The *'cents per kilometre method'* is also being changed by replacing the three current rates based on engine size with one rate set at 66 cents per kilometre, which applies to all motor vehicles.

The government says that these changes will enable taxpayers who drive electric and hybrid vehicles to claim on a cents per kilometre basis, which is not currently an option for them.

The amendments apply to the 2015/16 income year and later income years.

Telstra 2014 share buy-back

Clients who participated in the October 2014 Telstra off-market share buy-back will need to take that into account when lodging their 2014/15 income tax return.

Taxpayers received a payment of \$4.60 per share that they sold, which consisted of: a fully franked dividend of \$2.27 per share; and a capital component of \$2.33* per share.

Note (): For CGT purposes, participants in the buy-back are deemed to have received \$2.77 as the capital component of the buy-back price.*

Please contact our office if you would like to discuss.

Data matching to be expanded on individual returns

The ATO has advised that last year, it cross-referenced information reported in tax returns against over 600 million transactions provided to it by third parties to identify omitted income and gains, or incorrectly-claimed offsets or entitlements to exemption from surcharges.

It also contacted nearly 400,000 taxpayers who had apparent discrepancies in the information they reported in their tax returns.

The ATO said that traditionally, it has focused on areas such as omitted interest and employment income, but this year it is expanding its data matching to encompass a greater range of areas, such as:

- capital gains tax (CGT) from the disposal of shares and property;
- employment-related foreign source income; and
- contractor income from payments made by government agencies.

Fairwork's pay and conditions tool – "P.A.C.T."

If you are unsure about penalty rates or how much leave your employees are entitled to, the P.A.C.T. can help.

Fairwork's new on-line tool has the most up-to-date pay rates and information to make sure you get it right the first time. For more information go to: www.fairwork.gov.au/PACT.

Tax support service for drought affected communities

The government has announced a new service to help drought affected communities manage their tax affairs when times are tough, and has set up a dedicated hotline on 13 11 42.

The ATO will work with the Department of Agriculture to identify drought-affected taxpayers, and will provide personalised assistance and customised support plans for business owners and communities in these areas.

The ATO has also undertaken to get in contact with businesses in drought-affected communities to make sure they are aware of the options available to help them meet their obligations.

Builders and contractors taxable payments annual report

The ATO has reminded taxpayers that the builders' and contractors' taxable payments annual report was due to be lodged by 28 August 2015.

Any clients in the building and construction industry who have made payments to contractors for building and construction services should contact our office.

Please Note – Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.

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