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ATO audits, yes.... this year for real

The financial year ends on FRIDAY 30th June and so it's timely to reassess your financial position as we commence the 2017/2018 financial year.

To assist you in preparing the necessary information for us to prepare your 2017 annual work we refer you to our checklists (*both personal & business for your information or **completion** - as applicable*), which lists some of the more common transactions likely to be included in your return. Checklists are available for download from our website (www.eifcpa.com) under 'forms > tax and business checklists' banner.

Income Tax Lodgements

Should you have returns yet to be lodged for the 2015 and 2016 financial year we urge you to contact us quickly to ensure we process them promptly. Fines will apply for non-lodgement and we would prefer you avoid them.

Audits - Tax Office Increases It's Focus

The ATO has advised that it continues to expand its audit coverage and will be stepping up its audit activities *for all taxpayers including individuals* due to increased funding on an unprecedented level of funding, this year it will happen. There has been a regime change with the aim to recover revenue. Where the ATO identifies that a taxpayers work related expense claims are unusually high, it will contact the employer to obtain more information about the taxpayers circumstances.

Specifically:

- Outbound workers incorrectly classifying themselves as non-residents for tax purposes;
- All taxpayers with travel, living away from home and other employer allowances;
- Taxpayers claiming work travel including when transporting bulky equipment;
- Rental properties with a particular focus on travel claims (particularly interstate property)
- *specifically work related expenses – travel claims, internet, phone, computer and 'mixed use' claims;*

Action: Please ensure you have complied and that your records are correct and up to date.

It is imperative that you are able to substantiate all claims. **NO RECEIPT = NO CLAIM.**

RECORDS SHOULD BE KEPT FOR 5 YEARS – INDEFINATELY WHERE ASSOCIATED WITH DEPRECIATION CLAIMS AND CAPITAL GAINS TAX. **IT IS YOUR RESPONSIBILITY TO MAINTAIN COMPLETE RECORDS IN THE EVENT OF AN A.T.O. AUDIT.**

We are able to provide you with copies of the substantiation forms required or Tax Office Audit questionnaires for your completion to assist you in assembling your records if required.

ACTION: Please also ensure you are in possession of (if applicable):

- *completed motor vehicle log books & diaries* [mandatory],*
- *motor vehicle odometer reading recorded @ 30/6/2017,*
- *travel diaries***
- *computer usage, home or mobile telephone logs/diaries,**
- *receipts or other documentation for intended claims,*
- *health fund membership statements*

(*) These forms are available for download from our website (www.eifcpa.com) under the 'forms > diary, log sheets and MV log books' banner.

MyGOV Accounts

Significant confusion has been caused throughout the financial year for clients with ATO system failures and poor government systems. One such poor government system is MyGov. If you have a MyGov account it is important to log in and de-register [un-tick] the taxation indicator. Leaving the taxation indicator 'ticked' means that we are not informed of any ATO action, nor receive any ATO correspondence in relation to your affairs meaning things could therefore get 'missed'.

Audit Insurance – a very good investment this year

ATO audits have increased significantly. Sadly this is a growing trend, even for a low risk practice such as ours. The Federal Government are looking to audit activity to recover funds from taxpayers.

Audits are time consuming, invasive and expensive for you.

It is a timely reminder to advise that we offer audit insurance designed to meet the Accountant's time involved in most audits and is tax deductible. Reminder invoices for this service will be sent soon.

Alternatively, call us about audit cover as a priority.

Key Business Points

The ATO will be focusing heavily on small Employers in the new financial year. They have stated that employee superannuation, PAYG withholding, fringe benefits tax, allowances, motor vehicle usage & tax file number declaration reporting obligations will head their list. Visits may be unannounced and clients should be aware of their rights if visited. Please ensure

- All employees have signed their TFN declarations as appropriate.
- No private expenses [including motor vehicle expenses] have been put through business accounts.
- Withholding tax is being deducted at the correct rate.
- SG [employee] superannuation has been paid by the 28th day of the month following the relevant quarter & 9.50% of gross ordinary time earnings. **[This is an ATO audit flag this year]**
- Wage records are up to date, correct amounts of PAYG have been reported to the ATO and were reported on time and RFBT & RESC are recorded on payment summaries. Note: there are new payment summaries for working holiday makers.
- BAS's & IAS's have been processed and that none are outstanding.
- Issue workers payment summaries by 14th July & lodge annual PAYG withholding payment summary with the ATO by 31st October.
- Taxable payments annual report for subcontract payments have been sent to the ATO by 28th August.

Withholding obligation of sale of residential real estate

Purchasers of real estate where the property is >\$2 million should obtain a tax clearance certificate from the Vendor or they will be liable to pay 10% withholding tax to the ATO.

Another year older? Will up to date or no Will?

Colin Chapman is our estate planning specialist and can meet you in the comfort of your home to get your Will completed or updated, or here in the comfort of our office. Please call us on 93812555 to arrange a convenient time to meet.

Superannuation Limits

The Federal Government has announced from the 1 July 2017, a **decrease** in the current amount of concessional (tax deductible) superannuation a taxpayer can contribute to \$25,000. For the 2016/2017 financial year taxpayers can still contribute up to \$30,000 per annum from all sources including super guarantee and salary sacrifice (\$35,000 for those aged 50 years and over).

Accordingly you should review your situation and consider contributing up to your limit before 30th June.

There have been significant super changes that apply from 01/07/2017 which we have communicated in previous emails. Speak to us for further information.

Deductible Superannuation Contributions

A notice of intention to claim an income tax deduction must be sent to your superannuation fund to support any deductible superannuation contributions made for the 2017 income tax year. Please ask us for guidance if you are unsure of your obligation. Failure to give notice will result in your deduction being disallowed if audited by the ATO. From 1st July 2017 the ability to claim a deduction for personal conditions will not be dependent upon an individual's employment status. Contact us for more clarification.

Asset Finance

Mr Calum McGuinness is our business asset finance manager, and can save you both time and money. With low interest rates now is a good time to speak to Calum about re-financing or new deals.

INDIVIDUALS

Income tax refunds

The ATO is no longer issuing refund cheques, in future refunds will be credited directly to our trust account. This will speed up the processing time involved to within ten days of lodgement in most cases. We can also direct credit to your bank account in some circumstances.

Omitted Income

Cross matching of income will be processed through Fast IMS. Due to a reduction in processing time, the improved data quality and the increase in volume of institutions reporting to the ATO, taxpayers who have omitted income (e.g. INTEREST, DIVIDENDS, PAYMENT SUMMARIES AND PROCEEDS FROM THE DISPOSAL OF REAL ESTATE OR SHARES) will be easily detected.

Please ensure you refer to our website www.eifcpa.com and use the checklists under 'forms > tax and business checklists' banner.

RESC & FBT on Payment Summaries – Individuals

Employee payment summaries may show a reportable employer super contribution and/or reportable fringe benefit amount. This is where employer super contributions are made in excess of the 9.5% SG contribution amount (e.g. salary sacrifice contributions) or where the employer has provided the employee with fringe benefits exceeding \$2,000 (This information will be used for income tests associated with deductions or rebates for personal super contributions, spouse super contribution rebate, repayment of HELP/SFSS debt, medicare levy surcharge, and child support payments). Employees should request their employer to clarify how this amount is arrived at as any errors that result in a shortfall of tax will be the employee's liability.



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Non-Residents

The government has announced from budget night 9/5/2017 non-residents will be denied access to the main residence exemption. Note that existing properties held prior to this date will only be grandfathered until 30 June 2019. Also the Government will introduce a charge of at least \$5,000 on foreign owners of residential property where the property is not genuinely available for rent for at least six months per year.

Health Insurance Rebate

To assist you claim your Health Insurance Rebate your Health Fund will be mailing a taxation statement for the 2016/2017 taxation year.

It is imperative that you keep the statement with your other taxation documents, as it will be required to complete your 2017 income tax return. *Any rebate for Health Insurance premiums obtained direct from Medicare will need to be disclosed to us prior to completion of your 2017 income tax return.*

Note: eligibility for the health insurance rebate is now determined according to family income thresholds. You should contact your health fund to confirm and or adjust your rebate.

Spouse Superannuation Contributions Rebate

If your spouse (married or defacto) receives less than \$13,800 income pa, you will be entitled to a tax rebate for contributing superannuation on his/her behalf. The maximum rebate is \$540 for a \$3,000 superannuation contribution, where your spouse's income is under \$10,800, reducing to Nil by \$13,800 pa. *For 2015/2016, any Reportable Employer Super Contributions and Reportable Fringe Benefits will be included in the spouse's income when determining eligibility for the rebate.* From 01/07/2017 the lower spouse income threshold has been increased from \$10,800 to \$37,000 & higher income threshold from \$13,800 to \$40,000.

Government \$500 Co-contribution to Superannuation

Per last year, personal contributions made **before 30th June** in any year to a superannuation fund where the contributor is employed or carrying on a business [i.e. at least 10% assessable income from salary & wages or business] *and* earning less than \$36,021 *assessable income + fringe benefits+ salary sacrifice super* [phased out up to \$51,021], qualifies for the government co-contribution of up to \$500. Call us today if you need any assistance in this regard. From 1st July 2017 the co-contribution will be replaced by low income super tax offset.

Claims for Outdoor Workers

Sunscreens, Sunhats, Sunglasses & Protective Clothing may now be claimed by taxpayers who are required to work outdoors for varying periods during the day.

Taxpayers can choose to claim the actual expense where supported by valid receipts, Taxpayers must apportion the expenditure where the products have been used for private use as well as for work purposes.

BUSINESS

Business clients with tax debts

The ATO from July 1st will be allowed to disclose information about any business with an ABN to credit reporting agencies if the business has tax debt over \$10,000+ and is at least 90 days overdue [This applies to any tax debt including unpaid staff super, company taxes, employee PAYG etc.]

This measure will dramatically affect small business lending going forward; smaller amounts of funding from lenders traditionally haven't required an ATO portal check.

Please ensure you are communicating with the tax office if you have a tax debt. We can assist in implementing repayment plans.

Benchmarking Audits

The ATO is employing the process of benchmarking your business statistics against other like businesses across the nation. The differences in the comparison will serve as an audit opportunity and they may follow up on those differences.

We will be preparing benchmark reports as part of your annual accounting work as a service to you, to highlight any differences from the national averages.

We will also liaise with the tax office on your behalf if you are selected for audit on this basis.

Single Touch Payroll

From 1st July 2018 businesses that have 20 or more employees will be required to report salary & wages, PAYG withholding & super information to the ATO at the time of payment. Please contact your software supplier to ensure that you can meet these requirements.

Income Splitting By Professionals

The ATO has launched an audit program reviewing income splitting arrangements by professionals in the current year. Income splitting of personal services income is outlawed except in limited circumstances. Do not become a statistic, call us to review your situation if you feel you may be at risk.

Living Away From Home Allowance

Living away from home allowance is administered through the Fringe Benefits Tax regime and need not be shown on payment summaries, as it is not a taxable allowance in the hands of the employee.

The employer however will be liable to pay Fringe Benefits Tax on the amounts paid to employees [refer to us if you have questions]. In certain circumstances employees will also need to maintain receipts in order to prove the LAFHA amounts have been expended.

Tax Incentives for Small Business Entities

A tax rate of 27.5% now applies to all businesses with turnover less than \$10m, provided they are engaged in a business enterprise. The higher rate of 30% still applies to companies engaged in investment operations.

This will cause some confusion with dividend payments and the attached franking credits. Please refer to us if you are in doubt about the tax rates or franking credits.

Small businesses are allowed to instantly write off each and every business asset costing less than \$20,000 that is purchased to the 30th June 2017. On budget night the government announced an extension of the \$20,000 write off to 30/06/2018.

Tax Information Schedule

This is a timely prompt to record your stock, debtors & creditors. [Download your 2017 taxation information checklist from our website www.eifcpa.com under 'forms > tax and business checklists' banner.](#)]

Employee Choice Superannuation

Most employees are able to choose where their SGC superannuation is to be paid provided that they are not under an Australian Workplace Agreement, Certified Agreement, Employment Agreement, Commonwealth or Public Service Superannuation Scheme, or under a WA State Industrial Award. Employers must provide eligible employees with the option to choose their own fund and also offer a default fund providing minimum levels of life insurance. An ATO standard choice form should be provided to each employee within 28 days of commencing employment. Employers are not required to provide choice forms where they have always given their employees the freedom to choose their own funds.

Heavy fines are imposed for non-compliance and you are advised to contact us directly if you are unfamiliar with your obligations.

Non Commercial Business Losses

Individuals (sole traders or partners) with losses from business activities deemed to be 'non-commercial' cannot offset those losses against other assessable income. The Tax Office deems business activities making losses to be non-commercial unless the business can satisfy at least one of the following tests;

- The share of assessable income from the activity is \$20,000 or more, or
- The business includes more than \$500,000 of real property (excluding private residence) or
- The business includes more than \$100,000 of other business assets (excluding cars)
- The business has resulted in taxable income in three out of the last five years.

In addition, from 1st July 2009, individuals with other adjusted taxable income in excess of \$250,000 will have the business losses deferred. Adjusted taxable income is the sum of **taxable income, reportable fringe benefits total, reportable super contributions and total net investment losses.**

The ATO takes aim at employee benefits received under customer loyalty programs

This year the ATO has a focus on employers who provide rewards from customer loyalty programs to employees (Redeeming points for non-cash benefits for employees). Also another issue is employees accumulating points on a personal customer loyalty program from paying for business expenses on their credit card and getting reimbursed. If employees take business flights and receive frequent flyer points on these trips there could also be an FBT issue. If you wish to discuss this in more detail then please contact Josh Bellamy in our office.

Shareholders Loan Accounts

It is important that clients maintain credit balance loan accounts to avoid the Division 7A deemed dividend rules. The ATO can "deem" an unfranked dividend where loan accounts are in debit after the end of the financial year. Division 7A only applies to debit loans made after 4th December, 1997. *Please contact us if you think you may be affected by this measure.*

Audits

The ATO will be stepping up its compliance activities with employers who fail to discharge their relevant employment obligations.

Specifically:

- Discrepancies between PAYG withholding credits claimed by employees and the amount of withholding remitted by employers;
- Employers who fail to adequately discharge their superannuation guarantee responsibilities to employees; and
- Employers who are registered under the workers' compensation scheme and are not registered for PAYG withholding purposes.

Further, the ATO will be cross matching payment summaries with member contribution statements [with super funds] and employer income tax returns.

BAS preparation is your responsibility [incl. maintaining tax invoices and related substantiation records], we will bring to your attention any material GST errors we identify when preparing your tax, but we do not provide a GST audit service.

Action: Please ensure you have complied and that your records are correct and up to date. Call us immediately if you feel you have a problem, or if you feel that previously lodged BAS's need amending.

2017 P.A.Y.G. Individual Payment Summaries

Employers paying fringe benefits in excess of \$2,000.00 between 1/4/16 and 31/3/17 will be required to disclose grossed up (pre-tax) benefits on the employees 2017 P.A.Y.G. Individual Payment Summaries.

From 01/01/2017 if you employ people on a working holiday visa which are subject to the backpacker's tax you must issue them a working holiday maker payment summary.

In addition, employers paying superannuation in excess of the 9.5% super guarantee (or amount in excess of the specified percentage under an award or enterprise agreement), will be required to disclose this amount on the employees 2017 P.A.Y.G. Individual Payment Summary.

S.G.C. Superannuation

Clients are reminded that as in prior years, superannuation payments had to be received by the appropriate fund **prior to 30th June, 2017** to be deductible in the 2017 financial year. Under the Superannuation Guarantee Charge (S.G.C.) rules Employers have until **28th July, 2017** to pay their 2017 superannuation commitment without incurring late penalties. Personal superannuation claims will be denied where a taxpayer is entitled to employer superannuation support regardless of whether the employer has actually paid the entitlement.

From 1/7/17 the Superannuation Guarantee charge (SGC) is based on 9.50% of employee ordinary time earnings & must be paid quarterly! The ATO are auditing SGC payments again this year.

ACTION: Please review employee records and ensure your Superannuation contributions were received by the fund by the 28th of the month following the end of each quarter. Contact us for guidance if required.

Superannuation Rules

The following set of rules apply to superannuation contributions:

- Employers will be able to claim a full deduction for all super contributions made on behalf of employees, and self-employed individuals will be able to claim a full deduction for all personal super contributions.
- A concessional super contribution limit of \$30,000 per person per annum applies (\$35,000 for individuals 49+ on 30/6/16). Note from the 1/7/2017 the concessional contribution limit is \$25,000 regardless of age.
- Superannuation contributions in excess of the concessional limits will be subject to excess contributions tax.
- Self-employed individuals may be eligible for the government co-contribution where they choose not to claim a tax deduction for eligible personal superannuation contributions to a complying superannuation fund

Bad Debts Written Off

Bad Debts had to be physically written off prior to the 30th June, 2017 to obtain a taxation deduction in the 2016/2017 financial year. Taxpayers must be able to demonstrate that every effort has been made to collect the debt, a tax audit will require substantiation that the debt was irrecoverable.

Subcontractors

The ATO has increased its compliance activities with employers who fail to discharge their relevant employment obligations. These obligations may also apply to some subcontractors. We have been warning you about this for some years in our annual newsletters.

The ATO is weeding out employers who employ subcontractors for their labour, these subcontractors are usually only armed with their tools, an ABN and a business name. They are often paid by the hour and not for a completed assignment.

This type of subcontractor will be categorised as an employee & the ATO will levy you, the payer for superannuation, possibly FBT and PAYG.

So:

Businesses paying subcontractors who have an ABN where the subcontractors are working for their labour should now be categorised as employees;

Employers need to adequately discharge their superannuation guarantee responsibilities to employees and subcontractors who are 'labour only'; and

Employers need to be registered under the workers' compensation scheme and also be registered for PAYG withholding purposes.

Additionally, those businesses associated with the building industry are required to report all payments made to subcontractors for the 2016/2017 year to the ATO on a taxable payment annual report by 28th August, regardless of business entity. Call us for more information if you are confused about your obligations.

Contractors, Consultants, Commission Agents and Personal Services Income (PSI)

Individuals who divert income generated by their personal services via a company, trust or partnership will have that income assessed back to the individual and the scope of work related expenses that can be claimed as tax deductions against the income of the entity may be limited.

The legislation automatically affects any individual or entity where 80% or more of their PSI is derived from the one source, special rules may apply even where < 80% is derived from one source.

P.A.Y.G. tax payments by entities and individuals should have been made quarterly/ monthly during the course of the year.

G.S.T.

Care should be exercised in completing your B.A.S as this is an area of tax office focus. Registered Businesses may make serious repetitive errors, for example:

- You are responsible for ensuring the payee's ABN is valid
- You are responsible for ensuring the payee is registered for GST
- claiming 100% of input tax credits on partly deductible expenses,
- failing to introduce a taxable supply on goods taken for own use,
- not in possession of a valid tax invoice to substantiate input tax credits,
- Ignoring the GST and claiming the whole amount as a tax deduction.
- Failing to lodge BAS's on time.

Clients who are unsure of their G.S.T. responsibilities or the G.S.T. treatment of any transaction should contact us for further advice.

Accounting Software

We are encouraging all business clients to use our Sage One software for the 2018 financial year. Our software will assist in assembly of data for preparation of wages, the B.A.S. and annual income tax return and streamline your affairs generally. Support will be available by telephone or "on-site" by our staff.

We believe this is the perfect business tool for any client who has experienced difficulty with GST recording, handwritten records or existing computer software. Our cashbook software is simple to use and offers a "no frills" bookkeeping solution. Contact us if you wish to find out more about the software.

The cost is \$20 per month and is the cheapest on the market, easier to use than MYOB, Xero and Quick Books.

Annual Leave

Geoff Edwards is away on leave until 17/7/17.

Geoff will reply to all emails whilst on leave.

PERSONAL FINANCIAL PLANNING & ADVICE

As authorised representatives of **Count Wealth Accountants™ (Count)**, we offer a simple "one stop shop" approach to Personal Financial Planning and advice.

We invite you to talk to us about:

- Savings Plans
- Wills
- Finance
- Investment Plans for Security, Capital Growth and Income
- Personal **Superannuation** & **Business Superannuation** to meet SGC requirements
- Income Protection, Life & Trauma Insurance
- Loans: Home Loans, Vehicle & Equipment Hire Purchase & Leasing
- Allocated Pensions incorporating tax effective income streams
- Investment Portfolio aggregation / consolidation

Need Finance ? Ask us! We have lending managers Australia wide. We are happy to discuss your situation to ensure you have the correct tax advice and finance package to suit your individual circumstances. We can match or better the banks on pricing and service.

Geoffrey Edwards and Mark Newman are Authorised Representatives of
Count Wealth Accountants™ .

Talk to Mr Calum McGuinness about asset finance.



This office uses an **Electronic Lodgement System**. With your consent refunds will be credited directly to our trust account for payment of your fee, and the balance remitted to you. This speeds up the processing time involved to within ten days of lodgement in most cases.

**We love referrals be they businesses, family or friends
and we are always happy to assist.**

Office Hours

8:30am - 5pm Monday to Thursday

8:30am - 3pm Fridays

(Saturday mornings and at other times by arrangement)

Terms of Credit

Our terms are strictly 14 days.

A \$55 per month (or part thereof) GST inclusive bookkeeping fee will be charged on all overdue accounts this year.

We are happy to discuss alternative payment options or instalments.

Telephone (08) 9381 2555

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