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Get ready for audits

Happy New Year! The financial year ends on Tuesday 30th June and so it's timely to reassess your financial position as we commence the 2015/2016 financial year.

To assist you in preparing the necessary information we have attached 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, is available for download from our website (www.eifcpa.com) under the forms > information banner also.

Audits - Tax Office Increases It's Focus

The ATO will be stepping up its audit activities for all taxpayers 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.

Specifically:

- Building and Construction & hospitality workers;
- All taxpayers with travel, living away from home and other employer allowances;
- Taxpayers claiming work travel including when transporting bulky equipment;
- Rental properties and associated rental property depreciation claims;
- **As always, 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 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 @ 30/6/2015,*
- *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 banner.

Audit Insurance

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.
- BAS's & IAS's have been processed and that none are outstanding.
- Annual PAYG summaries have been lodged with the ATO by the 14th Aug.
- Correct payment summaries have been issued to all employees.
- Subcontractor annual summaries have been issued and sent to the ATO by 31st July,

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 Julie on 93812555 to arrange a convenient time to meet.

Call Mark Newman to review your life insurance needs to ensure you have all estate planning up to date.

Superannuation Limits

The Federal Government has increased the current amount of concessional (tax deductible) superannuation a taxpayer can contribute to Superannuation for the 2014/2015 Financial Year. Taxpayers can contribute up to \$30,000 per annum from all sources.

Accordingly you should review your situation and consider contributing up to your \$30,000 limit before 30th June.

[\$35,000 for taxpayers aged 49 years or over on 30/6/14]

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 2015 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.

Granny Flat Danger!

The tax man will levy capital gains tax upon any granny flat being rented to non-family in a non-integrated living arrangement. Speak to us for further information.

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 SUBDIVISION OF LAND) will be easily detected.

Please ensure you refer to our checklist under the FORMS TAB on our website www.eifcpa.com.

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.

Non-Residents

The government has removed eligibility for the 50% discount on capital gains accrued by non-residents on taxable Australian property such as real estate from 7.30pm [AEST] on 8/5/2012.

Non-Residents will still be entitled to the CGT discount on capital gains accrued before this time provided they choose to obtain a market valuation of assets as at 8/5/2012.

Health Insurance Rebate

To assist you claim your Health Insurance Rebate your Health Fund will be mailing a taxation statement for the 2014/2015 taxation year.

It is imperative that you keep the statement with your other taxation documents, as it will be required to complete your 2015 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 2015 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 \$15,800 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 \$15,800 pa. *For 2014/2015, any Reportable Employer Super Contributions and Reportable Fringe Benefits will be included in the spouse's income when determining eligibility for the rebate.*



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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 \$31,920 *assessable income + fringe benefits+ salary sacrifice super* [phased out up to \$46,920], qualifies for the government co-contribution of up to \$500. Call us today if you need any assistance in this regard.

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

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.

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 for the 14/15 financial year, 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.

Proposed Deduction

Small businesses are allowed to instantly write off each and every business asset costing less than \$20,000 that are purchased from 12/5/15, subject to becoming law. **Note, this has not yet been passed by the senate.**

Tax Information Schedule

This is a timely prompt to record your stock, debtors & creditors. Download your 2015 taxation information checklist from our website [under the FORMS TAB on our website www.eifcpa.com].

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.**

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.

2015 P.A.Y.G. Individual Payment Summaries

Employers paying fringe benefits in excess of \$2,000.00 between 1/4/14 and 31/3/15 will be required to disclose grossed up (pre-tax) benefits on the employees 2015 P.A.Y.G. Individual Payment Summaries.

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 2015 P.A.Y.G. Individual Payment Summary.

S.G.C. Superannuation

Clients are reminded that as in prior years, superannuation payments had to be receipted by the appropriate fund **prior to 30th June, 2015** to be deductible in the 2015 financial year. Under the Superannuation Guarantee Charge (S.G.C.) rules Employers have until **28th July, 2015** to pay their 2015 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 1/7/14 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 receipted 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 deductible super contribution limit of \$30,000 per person per annum applies (\$35,000 for individuals 49+ on 30/6/14)
- 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.
- Superannuation **increased to 9.50%** from 1/7/14

Bad Debts Written Off

Bad Debts had to be physically written off prior to the 30th June, 2015 to obtain a taxation deduction in the 2015/2015 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 2015/2015 year to the ATO on a special reporting schedule, 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 1 software for the 2016 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 \$15 per month and is the cheapest on the market, easier to use than MYOB, Xero and Quick Books.

Annual Leave

Geoff Edwards is away 12/6/15 – 6/7/15. Mark Newman is away 17/7/15 – 28/7/15.

Geoff and Mark will attend to each other's appointments in their respective absences.

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. David in Perth, Ewen & Brett in Sydney and Guy in Melbourne to name a few. 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

9am - 5pm Monday to Thursday

9am - 3pm Fridays

(Saturday mornings and at other times by arrangement)

Terms of Credit

Our terms are strictly 15 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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