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Practice Update

Please read this update and contact this office if you have any queries

July - August 2015

New Staff Member for Ayr

Peter, John & staff would like to extend a warm welcome to Taylor Reents who joined the ML Partners team in June. Taylor was doing a Bachelor of Business full time at JCU last semester, but will now complete her degree externally while working full time in the Ayr office. Welcome Taylor!



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.

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.

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.

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.

Reasonable Overtime Meal Allowance Amounts – 2015/16

The reasonable amount for overtime meal allowance expenses for 2015/16, where an allowance is paid under an award, order, determination, industrial agreement or a Commonwealth, State or Territory law, is as follows:

Description	Reasonable Amount \$
Per Meal	28.80

Builders and contractors annual payment report

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

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

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.

81 year-old WA pensioner loses \$110,000 in tax scam

An octogenarian caring for his sick wife has lost \$110,000 in a tax scam.

WA Consumer Protection says the 81 year-old was duped by scammers pretending to be from the ATO.

The man was contacted by people claiming he owed money to the ATO and would be jailed if he did not pay immediately.

The scammers also told him his three children would lose their jobs.

The ATO would never threaten jail or arrest and does not email, call or SMS asking for credit card or bank details to issue a refund.

Scammers also try to obtain personal information in order to steal the target's identity. For more information refer to the ATO website:

<https://www.ato.gov.au/Tax-professionals/Newsroom/Your-practice/Beware-of-phone-scams/?tpissue-32-2015>

Government moves to get Single Touch Payroll right

Under Single Touch Payroll, employers' accounting software will automatically report payroll information to the ATO when employees are paid.

This will eliminate the need for employers to report employee-related Pay As You Go Withholding (PAYGW) in their activity statements throughout the year, and employee payment summaries at the end of the year.

However, the government has advised that it has become aware that a start date of July 2016 will not be achievable for many businesses.

It also recognises the cash-flow implications for business of real time payments, and will therefore only be consulting further on real time reporting, with *voluntary* real time payments, as an option.

It has asked Treasury and the ATO to consult with business and the software industry on the scope and timing for the Single Touch Payroll initiative, with targeted pilots maybe starting from July 2016.

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.

SuperStream for small employers with 19 or fewer employees started from 1 July 2015 with full compliance required by 30 June 2016.

ATO is using SMS messages to try and clear debt

The ATO has advised that it is using SMS and emails for promotional and information purposes.

They say that, if individual taxpayers receive an SMS or email claiming to be from the ATO, they can check the list of the ATO's current activities (on its website at *ATO Online Services*) to verify that it's genuine.

However, ATO messages will never ask taxpayers to reply by SMS and/or email to provide personal information, such as the taxpayer's tax file number or their personal bank account number or BSB.

Update on taxi travel/ride-sourcing

The ATO has confirmed that people who provide ride-sourcing services are providing 'taxi travel' under the GST law. The existing tax law therefore applies to them and so such drivers are required to register for GST regardless of their turnover.

Recognising that some taxpayers may need to take some corrective actions, the ATO is allowing drivers until 1 August 2015 to get an ABN and register for GST.

Zone tax offset changes for FIFO workers

On 16 July 2015, Treasury released Exposure Draft legislation dealing with the Budget announcements to remove eligibility for certain "fly-in-fly-out" (FIFO) and "drive-in-drive-out" (DIDO) employees to claim the Zone Tax Offset (ZTO).

The ZTO is a tax offset available to individuals who live or work in specified remote areas for more than 183 days in the tax year. It is intended to recognise the high cost of living, isolation and uncongenial climate faced by individuals living in those locations.

The 183 days are not required to be consecutive, so FIFO and DIDO workers can potentially claim the ZTO due to the time that they physically spend in the specified remote areas, even though they do not actually live there full time and do not face the same challenges of remote living that the ZTO was intended to address.

The proposed changes will restrict access to the ZTO to individual taxpayers whose normal residence is located within the specified remote areas. This would exclude FIFO and DIDO workers whose normal residence is not within a specified zone.

These amendments are proposed to apply from 1 July 2015.

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

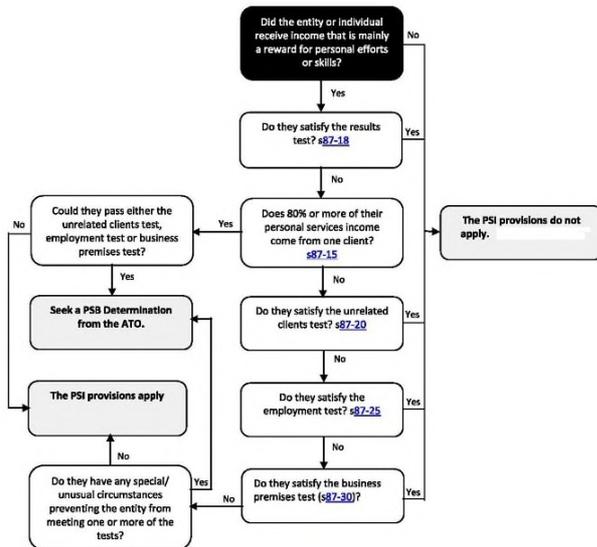
from home to work.

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.

Why company structures don't prevent PSI issues

Personal services income (PSI) is income produced mainly from your personal skills or efforts as an individual. Income is classified as PSI when more than 50% of the amount you received for a contract was for your labour, skills or expertise. If any of your income is classified as PSI then need to work out if special tax rules (the PSI rules) apply to that income. There's a series of steps to follow to help you do this. See flowchart below:



If you received PSI and the rules apply:

- there are fewer deductions you can claim against this income, and
- you will need to report this income as your own individual income.

A recent case before the AAT, **Prasad Business Centres Pty Ltd and Commissioner of Taxation [2015] AATA 411** demonstrates why being in a company structure does not provide protection from the PSI rules.

Prasad Business Centres Pty Ltd had three separate agreements with a company under which project management services would be provided to that company's client. Mr Prasad performed all the services, on behalf of PBCPL.

Each of the agreements provided that Mr Prasad was to perform the role of project manager. No other person could perform that role without the agreement of the engaging company and its client. All work was to be performed in the client's office. The agreed fee of \$1000 per day plus GST was to be paid fortnightly. All time spent performing the work was to be recorded in a timesheet format approved by the client and signed by an authorised representative of the client at the end of each week. Provision was made for termination of the agreements, insurance, including public liability insurance and damages.

The AAT held that although the work done by Mr Prasad was directed towards the achievement of a result, the entitlement to receive income was not dependent upon the production of a result.

The contracts were designed to compensate only for the time spent working on the relevant projects and the taxpayer's income was based solely on the number of days that were worked by Mr Prasad, with no contractual requirement to achieve specific deliverables or milestones in order for the compensation to be paid. Therefore the compensation was held to be not for producing a result and the results tests was failed.

If you require more information on the Personal Services Income (PSI) rules please contact this office.

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.

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.