

# THE PRACTICAL TAX APPROACH



Burford Partners Pty Ltd A.B.N. 77 000 857 938  
Chartered Accountants  
Suite 501, 5 Celebration Drive, Bella Vista NSW 2153  
Telephone: 02 8824 4444 Facsimile: 02 8824 8344

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## ***Preparation of the Return***

As soon as you have received your PAYG Payment Summary(s) and/or assembled your information, you should ring to make an appointment or forward your information to us by mail. Please contact Asuman or Gary for enquiries and Misel (pronounced Michelle) for appointments.

## ***Common Tax Issues***

As usual the following matters should be considered when assembling your 2011 information:

### ***Work Related Expenses***

You should ensure that you hold receipts or other documents to substantiate work related expenses otherwise a deduction is not allowable.

*Uniforms.* A deduction is only available where the clothing is:

- (a) non-compulsory but registered by the Australian Taxation Office (ATO);
- (b) compulsory work uniform that is distinctive to your organisation;
- (c) protective against the *work* environment as opposed to the *natural* environment or protection of other clothes.

*Motor vehicle.* If you use your motor vehicle for business purposes and travel more than 5,000 business kilometres during the year you can maximise your deductions by keeping a log book and/or keeping all documents to substantiate expenses.

Alternatively, if business kilometres are less than 5,000 kilometres per annum you will probably obtain a greater benefit by claiming the cents per kilometre method by keeping a list of the business travel during the 2010/11 year....even travel to visit your accountant.

Unless you can substantiate your kilometres by reference to diary entries etc, or document your expenses, claims for motor vehicle usage should not be made.

## ***Donations***

If you have made donations to charities which you believe are tax deductible (in accordance with the notation on the receipt) please provide us with these details. Donations often overlooked are to a school building fund.

## ***Home Office***

If you have an area set aside at home which is used *exclusively* for work or business related purposes, please let us know so we may advise you of the potential tax deductions available.

## ***Personal Tax Offsets***

### ***Education Expenses***

The education tax refund allows eligible taxpayers to claim back education expenses to a maximum of \$794 (refund of \$397) per child per year for primary school students and \$1,588 (refund of \$794) for secondary students. Generally, eligible taxpayers are those entitled to family tax benefit part A. Eligible expenses include buying, repairing or maintaining computers and related equipment, home internet connections, software and textbooks.

### ***Spouse Rebate***

Please advise us of the income of your spouse and any dependants.

### ***Medical Expenses Rebate***

A rebate is available where net family medical expenses during the year exceed **\$2,000** – up from \$1,500 (after any Medicare and health insurance refunds).



## Super Co-Contribution

The government will match up to \$1 for each \$1 of eligible personal superannuation contributions made by certain individuals. For 2011 and 2012 employees who earn up to \$31,920 a year can receive the full \$1 Co-Contribution (up to a maximum amount of \$1,000 per year). A reduced Co-Contribution is also made for individuals, according to their income level and size of their contribution, who earn between \$31,920 and \$61,920 a year.

You do not need to advise the Taxation Office, as this information will be matched from your tax return and your superannuation fund.

## Superannuation Contributions

Concessional (deductible) contribution caps are:

- transitional cap applying to those aged 50 or over of \$50,000; and
- standard cap for those under aged 50 of \$25,000.

Non-concessional (non-deductible) contribution cap remains at \$150,000 per annum, together with the ability to pay 3 years non-concessional contributions of \$450,000.

## Loan Interest – Split & Linked Loans

You should be mindful of the concerns the Taxation Office has regarding the deductibility of interest under certain loan arrangements and therefore you should contact us prior to re-financing or entering into any business or commercial loan arrangements.

## OTHER INFORMATION

Please also advise us of:

- Interest and Dividends received
- Rental property income and expenses

Enclose copies of:

- PAYG Payment Summaries;
- Medical insurance fund annual notice;
- Solicitor's statement if you purchased or sold a rental investment property during the year;
- Log book if you have work related motor vehicle expenses.

Notify any changes to your:

- Home address, contact phone number
- Dependent spouse or children
- Job description

## PERSONAL INCOME TAX THRESHOLD

Personal income tax thresholds from 1 July 2011 are unchanged:

Income Range (\$)	Tax rate (%)
0-6,000	0
6,001 – 37,000	15
37,001 – 80,000	30
80,001 – 180,000	37
180,000 +	45

The above rates do not include the Medicare levy which is an additional 1.5%.

Also, an additional **floor levy** applies to those with 2011/2012 taxable income of more than \$50,000. The levy is ½ cent for every \$1 between \$50,000 and \$100,000 and \$250 plus 1 cent for every \$1 above \$100,000.

## SMALL BUSINESS MATTERS

### Fringe Benefits Tax and Cars

The current statutory formula method is to be replaced with a single statutory rate of 20% regardless of the number of kilometres travelled. This change will apply to new vehicle contracts entered into after 10 May 2011 and will be phased in over four years as follows:

	FBT Statutory Rate Method			
	Statutory Rate			
Distance travelled during FBT year	Existing contracts (%)	New Contracts from 10 May 2011 (%)	New Contracts from 1 April 2012 (%)	New Contracts from 1 April 2013 (%)
0 - 14,999	26	20	20	20
15,000 – 24,999	20	20	20	20
25,000 – 39,999	11	14	17	20
40,000 +	7	10	13	17 (20 from April 2014)

## Fringe Benefits Tax and Cars (cont'd)

### Winners and Losers

The flattening out of the rates to a single 20% will create some winners and losers:

- **Winners** – those who drive less than 15,000 kms per year will get an FBT saving as the base value of the car will be multiplied by 20% rather than 26%.
- **Losers** – those who drive between 25,000 and 40,000, your rate will rise from 11% to 20% over 3 years.
- **Losers** – those who drive over 40,000 kms, your rate will rise from 7% to 20% over four years (although such people would usually be better off using the operating cost method).

### Small Business Motor Vehicle Tax Write-off

Small businesses will be entitled to an instant tax write-off of the first \$5,000 of any motor vehicle purchased from 2012/2013. The remainder of the purchase value would be transferred into the general small business depreciation pool to be claimed in subsequent years.

Small business entities (i.e. businesses with a turnover of less than \$2 million) may wish to consider delaying the purchase of a motor vehicle until 1 July 2012 and thus gain a significant cashflow benefit

### Holiday Travel and Deductions

The Tax Office has issued Taxpayer Alert TA 2011/3 warning taxpayers against claiming holiday travel as work related, investment or self-education expense – where these expenses have an insufficient connection with the taxpayer's current income-earning activities or are of a private or domestic nature.

The Tax Office has three concerns:

- That the expenses are not being apportioned between private and education purposes;
- That claims are not reduced by \$250 in relation to certain expenses; and
- That the organiser of the scheme may be promoting a tax exploitation scheme.

### General Business Matters

Business operators should provide us with:

- Business Activity Statements for the year including any supporting workpapers;
- Lists of debtors and creditors at 30 June 2011;
- PAYG withholding summary for the year;
- Stocktake summary for stock on hand at 30 June 2011;
- Superannuation contributions made on behalf of employees;
- Lease or hire purchase contracts entered into during the year;

## EMPLOYMENT MATTERS

### Superannuation Guarantee Contributions

For the **2010/2011** year the required rate of contributions to superannuation funds by employers for their employees and contractors remains at **9%**.

If you are unsure of your obligations or require assistance in calculating your superannuation contributions for your employees please contact our office.

### Quarterly Superannuation Contributions

We remind you that all employers must:

- Pay superannuation contributions at least every quarter and within 28 days of the end of that quarter;
- Keep records relating to contributions for 5 years.

Significant penalties apply if employers fail to meet the quarterly requirements in any quarter.

### PAYG Payment Summary forms

Should you require us to prepare your business's 2011 PAYG Payment Summary Forms and reconciliation statement please forward your wages records and/or MYOB file to us no later than 15 July 2011. The last day for lodgement of the reconciliations is 14 August 2011 and penalties may be imposed by the ATO for every week the reconciliation is lodged after the due date.

If you wish to discuss any of the above business matters or would like advice in respect of any technical matters please contact Greg or Gary.

Contact Asuman or Krista for any accounting, MYOB and personal tax matters.

# Income Tax Return Preparation Checklist

1. PAYG Payment Summary(s)
2. Bank Interest Income
3. Dividends
4. Trust distributions & Other Investment Income
5. Partnership income
6. Business/contracting income
7. Rental Property details of income & expenses
8. Children – Christian names and dates of birth
9. Education Expenses Tax offset – if you are eligible for family tax benefit advise us of all eligible expenditure during the year
10. Work related deductions
  - Car Expenses (log book/details of expenses)
  - Travel Expenses (tolls, interstate travel/accommodation)
  - Uniforms (dry cleaning, washing, replacement)
  - Self-education expenses (fees, books, travelling)
  - Other work related expenses (home office, telephone, sun protection products, professional subscriptions, calculator)
11. Interest & Dividend deductions (re 2 to 4 above – bank charges, interest)
12. Gifts or donations
13. Tax Agents Fee
14. Other deductions (Income protection insurance)
15. Personal Superannuation Contributions – Self Employed Persons
16. Medical Expenses Rebate (net amount above \$2,000)
17. Private Health Insurance Rebate
18. Capital Gains & Losses – details of asset disposals etc
19. Spouse contributions to Super