

"Keeping you informed"

I have just returned from a two day tax seminar presented by the National Tax & Accountants Association, and some important issues arose from the seminar that I feel are important for you to be aware of now.

Investment Allowance

There is some good news and some potential traps with this tax break. The good news is that the Investment Allowance has now been legislated and as such we have certainty about this tax break. In the Federal Budget the tax deduction has been increased to 50% for Small Business (<\$2mil turnover) and extended until 31st December 2009.

The bad news is that further clarification has identified some important issues to consider. Firstly, to get the tax deduction in this financial year the asset must have been installed ready for use by the 30th June 2009. If it's not then you won't miss out on the tax deduction, but it won't be claimable until the 30th June 2010.

Another previously unclear issue is that software is not eligible for the tax break at all. In relation to vehicles there are some further potential complications. A leased vehicle is not owned by the lessee and so the lessee is not eligible, except where the vehicle is classed as a luxury vehicle. The lessor may be entitled to the tax deduction, but from our experience they are not particularly willing to pass it on to the customer.

Another strange fact is that if you claim your vehicle using the "Cents per Kilometre" method on your tax return then you will not be eligible for the Investment Allowance. This effectively means that you must either complete a logbook or consider using the 12% of cost method to be eligible.

Education Tax Refund

Legislation has now been passed for this new tax rebate and so we can comprehensively identify which expenses are eligible, as follows;

- Computers (purchases, lease, hire, hire purchase)
- Computer related equipment (Printer, Scanner, USB flash drive, etc)
- Home internet connection
- Computer software
- School stationery & textbooks
- Tools of trade

A guide to common expenses that are **ineligible**;

- School fees
- Uniforms
- Camps & excursions
- Sport equipment
- Musical equipment
- Subject levies
- School Building Fund levies
- School photos
- Donations
- Library fees
- Tuck shop
- Transport fees
- Membership fees
- Computer games/consoles

ATO Audit Targets for 2009

The ATO have advised that they will focus upon the following industries & areas this year;

- ✓ Employee chefs
- ✓ Nursing employees
- ✓ General & Specialist Medical Practitioners
- ✓ Rental properties
- ✓ CGT & Asset sales
- ✓ Executives & Directors
- ✓ Accessing superannuation early

New Income Tests

This is an area that is a tax by stealth (they've got to repay the \$300 billion debt somehow!).

New income tests have been developed which will have a negative impact upon various tax rebates, levies, deductions and Centerlink entitlements. In many cases your "Income" will be adjusted to add back Rental Property Losses, Other Net Investment Losses and Salary Sacrifice Superannuation. The main items to be affected are;

- Senior Australians Tax Offset
- Pensioner Tax Offset
- Mature Age Worker Tax Offset
- Spouse Super Contribution Tax Offset
- Personal Super Contribution Tax Deduction
- Superannuation Co-Contribution
- Medicare Levy Surcharge
- HECS/HELP Repayment
- Family Tax Benefit

Trade Benchmarking

The ATO has introduced further benchmarking rules that they will use to target specific trades that they believe are part of the cash economy.

They will not doubt use the benchmarks to put the burden of proof upon the tradesperson to prove any unreasonable discrepancies. As an example, the following is the benchmark for a painter;

Coverage rate for paint	10-12 m2 per litre
Cost of paint as a % of price charged to customer	30%
Amount of paint applied per day	8 – 10 litres
Time to paint average room (inc prep)	1 – 1 ½ days
Average job size	175 m2
Time to complete average job	3 – 4 ½ days
Days worked per year	220
Jobs completed per year	50
Price charged	\$10 - \$22 per m2 \$25 - \$50 per hour
Litres of paint purchased per year	1,760
Coverage rate	10 m2 per litre
Cost of paint as % of work	25%
Square metres completed per year	8,800 m2
Price charged per m2	\$10 - \$22
Business income range	\$88,000 - \$193,600

Subdividing the backyard - GST trap

If you intend to subdivide the backyard or another part of the family home and build a house to make a speculative profit upon its sale, then you will probably be liable for GST on the sale. GST will be 1/11th of the sale price, although you may be eligible to use the margin scheme which will reduce the GST payable.

If you are intending to do this then please seek advice from us beforehand so that we can advise on your situation and reduce any unintended GST and income tax problems.