TAX NEWS UPDATE
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Moore Lewis & Partners

Important Information: Tax audit insurance for your peace of mind

The Australian Taxation Office (ATO) and other relevant agencies are reaching unprecedented audit activity levels due to enhanced data matching capabilities. Therefore if you are yet to opt-in to our tax audit insurance service, Audit Shield, now is the time to consider it. If you have already taken up our offer, you can rest assured as you are protected

Audit Shield covers professional fees incurred as a result of official audit activity instigated by the ATO or other relevant federal, state and territory based agencies. If you have misplaced the communications regarding our Audit Shield service, please contact us via email, phone or in person as we will be able to supply you with information on the offer

ATO warning for the building and construction industry

The ATO has reported that the building and construction industry represents a disproportionate amount of its debt book, and has identified worrying trends that affect the industry.

Clients in the industry are encouraged to contact their tax agents regarding outstanding debts, as the ATO may be able to offer a range of payment options to help them get back on track sooner and reduce any interest they may be liable for.

Clients that fail to pay, or make arrangements to pay, may have their outstanding tax debts recovered through a garnishee notice.

Personal income tax cuts are law!

Editor: The government has finally legislated the tax cuts originally announced in the May 2016 Budget, so that the marginal tax rate of 37% now starts at $87,000.

The following are the rates for adult residents for the 2016/17 income year (i.e., from 1 July 2016).

Taxable income	Tax on this income
0 – $18,200	Nil
$18,201 – $37,000	19c for each $1 over $18,200
$37,001 – $87,000	$3,572 plus 32.5c for each $1 over $37,000
$87,001 – $180,000	$19,822 plus 37c for each $1 over $87,000
$180,001 and over	$54,232 plus 45c for each $1 over $180,000

The above rates do not include the temporary budget repair levy (due to expire on 30 June 2017), nor the Medicare levy of 2%.

The ATO has updated the tax tables and PAYG withholding tax schedules (and their online tax withheld calculator) to reflect these changes.

FINANCIAL PLANNING

Our main aim is to help busy families to stop worrying about money so it's with great interest when we see rising levels of debt that don't line up with household levels of income. There is such an intangible part of money that it can at times seem very easy to buy what you want, when you want, because let's face it there's a lender on every corner wanting to give you what you're looking for.

We believe that most people make such very large mistakes with their debt decisions that it places them in a debt trap that takes twice as long to get out of and costs twice as much. There are three mistakes that the unwary make: they borrow too much, they repay too little and they let the lender dictate the term.

There are easy ways to avoid these mistakes:

Firstly, make sure you understand exactly how much you are able to borrow and don't let the lender be the ones to tell you this. If you go to a lender and ask how much can I borrow then it's like going into a restaurant and asking how much are you going to feed me? Both have a product to sell and it's up to you 100% decide exactly how much of their product that you're going to consume.

Work out your maximum appetite (the most you can possibly repay) by multiplying your take-home household income by 30% as your repayments should never, ever exceed this amount – even with personal loans and credit cards combined.

So, rather than just blindly asking how much you can borrow, turn the question askew and ask how much can I borrow if I'm willing to make these repayments.

Secondly, take a moment to work out what your actual repayments should be based upon how much you are going to borrow. This is where you need to customise the repayments so that it suits your long-term debt goals.

So, take the amount that you are going to borrow and divide it by 100,000 then multiply it by 800. For example, you have borrowed $300,000 so divide it by 100,000 which makes 3 and then multiply it by 800 which makes 2400. This is your monthly repayment ($2,400) and means that you won't be trapped by debt for way longer than you want.

The maximum repayment should be the *lower* of points 1 & 2.

Thirdly, ignore the loan length that your lender puts in front of you. The maximum term you should be looking for is 15 years.

If these repayments seem a little high for what you want then I suggest you take some time to really revisit exactly what it is that you want. Particularly ask yourself the following question, "*do I want a pretty house or do I want a life that's rich and full?*

This can be a tough discussion for many households, so please if you'd like some help to discover the right way forward then get in touch with us.

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Superannuation changes passed by Parliament

Editor: The government's extensive changes to the taxation laws regarding superannuation were passed by Parliament on 23 November 2016.

According to the Treasurer, Mr Scott Morrison:

"The superannuation reform package better targets tax concessions to make our superannuation system fair and sustainable, as the population ages and fiscal pressures increase.

"The reforms include the introduction of a $1.6 million transfer balance cap, which places a limit on the amount an individual can transfer into the tax-free earnings retirement phase and the introduction of the Low Income Superannuation Tax Offset".

The amendments also include the following two new measures to provide more flexibility to help Australians save for their retirement:

- the removal of the '10% rule', allowing **anyone** (including employees) to claim a deduction for personal contributions into superannuation from 1 July 2017 (which will particularly help contractors who also draw income from salary and wages); and
- the ability for individuals with superannuation balances below $500,000 to make 'catch up' concessional contributions from 1 July 2018 (allowing them to 'tap into' unused amounts of their contributions cap from prior years, which will help those with broken work patterns – the overwhelming number of whom are women – better save for their retirement).

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Record keeping is always key to taking on the ATO

In a recent case before the Administrative Appeals Tribunal (AAT), amended assessments issued to a taxpayer by the ATO, which were based on the amounts of unexplained deposits to the taxpayer's bank accounts (in some years, in the hundreds of thousands of dollars, in others, millions), have been largely upheld.

The total further tax claimed by the ATO was almost $4 million, and, on top of that, they imposed an administrative penalty of almost $2 million (imposed at the rate of 50% for recklessness).

The taxpayer was partially successful in proving that some of the amounts deposited into bank accounts held in his name were not assessable income.

In particular, the taxpayer was able to demonstrate that some of the deposits were reimbursements of amounts he paid in relation to a group of companies of which he was an investor, and some were transfers from one of his bank accounts to another.

However, in relation to many of the deposits to his bank accounts, he had no corroborative evidence as to what they represented.

Therefore, he failed to discharge his onus to prove the amounts should not have been included in his assessable income.

Editor: Yet again the AAT has provided taxpayers with another reminder as to the importance of documentation and good record-keeping.