



TAX NEWS UPDATE

MARCH 2018

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.

3 things your finances can't survive without

Another year has rolled in and if you are anything like the rest of the human beings on this planet then you've probably spent a minute or two thinking about how you'd like this year to be different to last year. Many will turn their attention to their finances and perhaps even do a little bit of research into what can be done to make an impact.

If this is you then pay attention to the following three items because if you don't get these right you're going to have a much harder financial journey in front of you.

1. **Fees** – your fees are possibly too high! Legislation introduced on the 30th September last year requires super and investment funds to disclose all their fees, including related entity costs which many funds have used for decades to hide the truth from their members. The new requirements have some funds squealing from the attention, much like someone would who has been exposed when the tide goes out and we find they were swimming without bathers.

An investor who pays an additional 1% in fees than what they need can be short hundreds of thousands of dollars at retirement, which can be the difference between living comfortably and living-while-trying-not-to-lose-sleep.

Higher fees rarely translate to better returns so *check what you're paying.*

2. **Fears** – the strongest emotion. It can motivate you (FOMO, anyone?), paralyse you, distract you and even make you completely and utterly irrational. We all worry about something at some stage and the worry that finances will be negatively affected, ruin the future and destroy the hard work to date ranks right up there with the best (or worst) of them.

Market volatility is nothing new but when it swings in the opposite direction to what you want or expect it can terrify even the most stoic of us. The fact though, is that fluctuations in markets is just as normal as droughts, floods and fires. We don't like them, we don't want them but here they are.

The way you react to them has more of an impact than the events themselves.

Share markets often have 20 year returns close to twice that of the average investor and the only reason for this is our fear emotion. When markets are rising we fear we're missing out so we buy in at the tops of the market. When markets are falling we fear we're losing money so we sell out at the bottoms of the market. Crazy isn't it? Aren't we supposed to buy low and sell high?

Master your fears, don't panic in times of turmoil and don't praise yourself when markets are performing well. Markets don't care for your emotions and will leave you behind if you pander to your fears.

3. Fricking around – the single greatest reason why people don't have enough in retirement isn't because the government didn't mandate a higher super contribution rate, it isn't because the GFC hit or because super wasn't a 'thing' for most of their lives.

It's because procrastination took over and instead of making small sacrifices earlier in life they were forced to make major sacrifices with limited savings at retirement.

Act now and save more, it's simple but we know it's not easy. 20% of your household income is a great figure to aim for and one that will give you greater choices in the future.

If you can't reach that in one hit then work on reaching it using the Step up method which is where you start small – say 1% - and then increase in small 1% increments every six to twelve months. If you do it this way the changes will be so gradual that you are likely to barely notice the difference to your pay-packet.

Allowing fees, your fears and procrastination to get away from you will restrict you to a poor retirement and a stress and worry filled life. Getting on top of them will increase your knowledge, raise your confidence and grow your personal financial wealth. Sounds like the recipe for a much richer life.

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ATO to be provided with more super guarantee information

The Government has announced a package of reforms to give the ATO near real-time visibility over superannuation guarantee (SG) compliance by employers.

The Government will also provide the ATO with additional funding for a SG Taskforce to crackdown on employer non-compliance.

The package includes measures to:

- require superannuation funds to report contributions received more frequently (at least monthly) to the ATO, enabling the ATO to identify non-compliance and take prompt action;
- require employers with 19 or fewer employees to transition to single touch payroll ('STP') reporting from 1 July 2019;
- improve the effectiveness of the ATO's recovery powers, including strengthening director penalty notices and use of security bonds for high-risk employers, to ensure that unpaid superannuation is better collected by the ATO and paid to employees' super accounts; and
- give the ATO the ability to seek court-ordered penalties in the most egregious cases of non-payment, including employers who are repeatedly caught but fail to pay SG liabilities.

Editor: Following extensive consultation when STP was originally announced, it was decided that employers with 19 or fewer employees would not be required to comply.

*Given the backflip here, the business community will be hoping the Government does not introduce compulsory real-time **payments** of SG and PAYG withholding, as well as real-time reporting.*

ATO: Combatting the cash economy

The ATO has reminded taxpayers that it uses a range of tools to identify and take action against people and businesses that may not be correctly meeting their obligations. Through 'data matching', it can identify businesses that do not have electronic payment facilities.

These businesses often advertise as 'cash only' or mainly deal in cash transactions. When businesses do this, they are more likely to make mistakes or do not keep thorough records.

The ATO's ability to match and use data is very sophisticated. It collects information from a number of sources (including banks, other government agencies and industry suppliers), and also obtains information about purchases of major items, such as cars and real property, and then compares this information against income and expenditure reported by businesses and individuals to the ATO.

Example: Unrealistic personal income leads to unreported millions

The income reported on their personal income tax returns indicated that a couple operating a property development company didn't seem to have sufficient income to cover their living expenses.

The ATO found their company had failed to report millions of dollars from the sale of properties over a number of years.

They had to pay the correct amount of tax (of more than \$4.5 million) based on their income and all their related companies, and *also* incurred a variety of penalties.

Example: Failing to report online sales

A Nowra court convicted the owner of a computer sales and repair business on eight charges of understating the business's GST and income tax liabilities.

The ATO investigated discrepancies between income reported by the business and amounts deposited in the business owner's bank accounts, and found that the business had failed to report income from online sales.

The business owner was ordered to pay over \$36,000 in unreported tax and more than \$18,400 in penalties, and also fined \$4,000 (and now has a criminal conviction).

Get it in writing and get a receipt

The ATO also notes that requesting a written contract or tax invoice and getting a receipt for payment may protect a consumer's rights and obligations relating to insurance, warranties, consumer rights and government regulations.

Consumers who support the cash economy, by paying cash and not getting a receipt, risk having no evidence to claim a refund if the goods or services purchased are faulty, or prove who was responsible in case of poor work quality

New Approved Occupational Clothing Guidelines 2017

The government has issued new guidelines to set out criteria for tax deductible non-compulsory uniforms.

Editor: The taxation law only allows a deduction to employees for expenditure on uniforms or wardrobes where either:

- *the clothing is in the nature of **occupation specific**, or **protective** clothing; or*
- *the wearing of the clothing is a **compulsory** condition of employment for employees and the clothing is not conventional in nature; or*
- *where the wearing of the clothing is **not compulsory**, the design of the clothing is entered on the **Register of Approved Occupational Clothing**.*

The new guidelines outline (among other things):

- the steps that need to be undertaken by employers to have designs of occupational clothing registered; and
- the factors that will be considered in determining whether designs of occupational clothing may be registered.

The guidelines commence on 1 October 2017, and the previous Guidelines are revoked with effect from the same day.

ATO's occupation-specific guides

The ATO has developed occupation-specific guides to help taxpayers understand what they can and can't claim as work-related expenses, including:

- car expenses;
- home office expenses;
- clothing expenses; and
- self-education or professional development expenses.

The guides are available for the following occupations:

- construction worker;
- retail worker;
- office worker;
- Australian Defence Force;
- sales and marketing;
- nurse, midwife or carer;
- police officer;
- public servant;
- teacher; and
- truck driver.

ATO warning regarding small business record-keeping

According to the ATO, of all of the things that can cause small businesses to fold, *"high on that list is poor record keeping"*.

More than half of the businesses they visited in their *Protecting honest business* campaign needed to improve their record keeping.

Issues they found include businesses:

- estimating their sales and income;
- using the 'no sale' and 'void' button on cash registers when taking cash payments;
- not keeping cash register tapes and not reconciling at the end of the day; and
- paying their employees cash-in-hand.

They are writing to these businesses to recommend they attend one of the ATO's record keeping workshops, which cover why good record keeping is important and how it will save them time.

Review of rules for early release of superannuation

The Government has announced that Treasury will review the current rules governing early release of superannuation on grounds of severe financial hardship and compassionate grounds.

It will also review whether, and the circumstances in which, a perpetrator's superannuation should be available to pay compensation or restitution to victims of crime.

The review will not examine other general conditions of release for superannuation.

The Government also announced that it will transfer the regulatory role of administering the early release of superannuation benefits on compassionate grounds from the Department of Human Services to the ATO in 2018, to enable the ATO to provide a more streamlined service to members.

Taskforce to help digitise small business

The Government has established a Small Business Digital Taskforce, to be headed by entrepreneur Mark Bouris AM, to ensure more Australian small businesses can thrive in an increasingly digital economy.

Mark Bouris said: *"When a business begins to digitise and use digital tools, it opens up new opportunities to grow, diversify revenue streams, find talent, access finance, work smarter and enhance the value of the business when it is time to sell. If you're not going digital, you should be."*

Deloitte research has found that small businesses with advanced levels of digital engagement are 1.5 times more likely to be growing revenue, 8 times more likely to be creating jobs and 14 times more likely to be innovating.

The Taskforce will conduct a series of meetings, workshops and 'hackathons' with businesses over the coming months to explore impediments for business in engaging with digital technologies and how these impediments might be addressed.

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