TAX NEWS UPDATE
SEPTEMBER 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.

Information Required to Complete your Tax Return

We will need you to bring information to assist us in preparing your income tax return.

Please check the following and bring along payment summaries, statements, accounts, receipts, etc., to help us prepare your return.

Income/Receipts:

- payment summaries for salary and wages;
- lump sum and termination payments;
- government pensions and allowances;
- other pensions and/or annuities;
- allowances (e.g., entertainment, car, tools);
- interest, rent and dividends;
- distributions from partnerships or trusts;
- details of any assets sold that were either used for income earning purposes or which may be caught by capital gains tax (CGT).

Expenses/Deductions (in addition to those mentioned above):

- award transport allowance claims;
- bank and government charges on deposits of income, and deductible expenditure;
- bridge/road tolls (travelling on business);
- car parking (when travelling on business);
- conventions, conferences and seminars;
- depreciation of library, tools, business equipment (incl. portion of home computer);
- gifts or donations;
- interest and dividend deductions:
  - account keeping fees
  - ongoing management fees
  - interest on borrowings to acquire shares
  - advice relating to *changing* investments (but *not* setting them up);
- interest on loans to purchase equipment or income-earning investments;
- motor vehicle expenses (business/work related);
- overtime meal allowances;
- rental property expenses – including:
  - advertising expenses
  - council/water rates
  - insurance
  - interest
  - land tax
  - legal expenses/management fees
  - genuine repairs and maintenance
  - telephone expenses
- superannuation contributions;
- sun protection items;
- tax agent fees;
- telephone expenses (business);
- tools of trade.

ATO scrutinising car claims this tax time

The ATO has announced that it will be closely examining claims for work-related car expenses this tax time as part of a broader focus on work related expenses.

Assistant Commissioner Kath Anderson said:

"We are particularly concerned about taxpayers claiming for things they are not entitled to, like private trips, trips they didn't make, and car expenses that their employer paid for or reimbursed."

This is no doubt because over 3.75 million people made a work-related car expense claim in 2016/17 (totalling around **$8.8 billion**), and, each year, around 870,000 people claim the **maximum amount** under the cents-per-kilometre method.

Ms Anderson said that the ATO's ability to identify claims that are unusual has improved due to enhancements in technology and data analytics: *"Our models are especially useful in identifying people claiming things like home to work travel or trips not required as part of your job . . . simply travelling from home to work is not enough to qualify, no matter how far you live from your workplace."*

Ms Anderson said there are three golden rules for taxpayers to remember to get it right.

"One – you have to have spent the money yourself and can't have been reimbursed, two – the claim must be directly related to earning your income, and three – you need a record to prove it."

Case studies

False logbook

A traffic supervisor claimed over $11,000 for work related car expenses, and provided a logbook to substantiate his claim.

However, upon investigation the ATO discovered that the logbook wasn't printed until the following year – the taxpayer admitted the logbook was fraudulent and it was ruled invalid.

Even though the logbook was invalid, the taxpayer was able to provide other evidence to show that he had travelled at least 5,000 kilometres for work-related purposes, so the ATO used the cents per kilometre method to calculate the taxpayer's deduction (but his claim was reduced from over $11,000 to under $4,000).

Claiming for home to work travel

A Laboratory Technician claimed $3,300 for work-related car expenses, using the cents per kilometre method for 5,000 kilometres.

However, he advised that his employer did not require him to use his car for work; this claim was based on him needing to get to work.

The ATO advised the taxpayer that home to work travel is a private expense and is not an allowable deduction – his claim was reduced to nil and the ATO applied a penalty for failure to take reasonable care.

ATO guide to the 5 most common Tax Time mistakes

As Tax Time 2018 has 'kicked off', the ATO has profiled the **five most common mistakes** they see, including taxpayers who are:

- leaving out some of their income (e.g., forgetting a temp or cash job, capital gains on cryptocurrency, or money earned from the sharing economy);
- claiming deductions for personal expenses (e.g., home to work travel, normal clothes or personal phone calls);
- forgetting to keep receipts or records of their expenses (around half of the adjustments the ATO makes are because the taxpayer had no records, or they were poor quality);
- claiming for something they never paid for – often because they think everyone is entitled to a 'standard deduction'; and
- claiming personal expenses for rental properties – either claiming deductions for times when they are using their property themselves, or claiming interest on loans used to buy personal assets like a car or boat.

ATO Assistant Commissioner Kath Anderson reiterated the three 'golden rules' for work-related expenses: *"You must have spent the money yourself and not have been reimbursed, it must be directly related to earning your income, and you must have a record to prove it."*

Single Touch Payroll Update

Editor: Single Touch Payroll (STP) officially commenced for larger employers on 1 July 2018, and the ATO has provided some further guidance for affected entities.

The ATO is writing to employers who started reporting through STP *before* 1 July 2018, providing them with information about how their employees' payment summary for 2017/18 may change with STP, including the following:

- They are not required to provide their employees with payment summaries for the information they report through STP (although they may *choose* to provide payment summaries for the first year of STP reporting).
- 'Income statements' will replace payment summaries.
- Employees' income statements are available through pre-filling and myGov.
- The income statement has three categories: 'Tax ready', 'Not tax ready' and 'Year-to-date'. Only 'tax ready' income statements are complete and will be available through pre-filling.
- Income statements may not be tax ready until 14 August this year. Employers have until this date to finalise their STP data.

Editor: The ATO has also recognised that some employers may not have been ready to start STP reporting from 1 July 2018, and these employers (or their tax agent) may be able to apply for a deferral.

For example, employers that live in an area where there is no internet connection, or where the connection or service is intermittent or unstable, can apply for a deferral or even (in very limited circumstances) an exemption.

Please contact our office if you would like our assistance in this regard.

Suburban scammers pushing illegal early access to super

The ATO has become aware of people in some suburban areas of major cities attempting to encourage others to illegally access their super early (generally for a fee) to help them to purchase a car, to pay debts, to take a holiday, or to provide money to family overseas in need.

The ATO advises that anyone approached by someone telling them that they can access their super early, or anyone hearing about it from family, friends or work colleagues:

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- should not sign any documents nor provide them with any personal details;
- stop any involvement with the scheme, organisation or the person who approached them; and
- seek advice from a professional advisor or the ATO.

Tax time tips for small business

The ATO claims that it is committed to supporting small businesses and making it as easy as possible for them to understand and meet their tax obligations at tax time.

Consequently, Assistant Commissioner Mathew Umina has some tips to help small business in the lead up to and during tax time, including:

- keeping up-to-date records, which will help small businesses to complete and lodge their tax returns, manage cash flow, meet their tax obligations and understand how their business is doing;
- consider small business tax concessions, such as

  - simplified trading stock rules (if the estimate of the difference between opening and closing trading stock is $5,000 or less, the small business doesn't need to do a stocktake);
  - concessions that allow new small businesses to claim an immediate deduction for start-up costs like professional, legal and accounting advice;
  - simplified depreciation rules, including the $20,000 instant asset write-off for assets costing less than $20,000 bought and installed by 30 June 2018.

Please contact our office if you need any advice as to how any of the abovementioned small business tax concessions may be relevant to your business.

Invest with a purpose and never worry about another market crash

In March 2009 there were a lot of long faces on investors - share markets, property markets and bond markets had all ridden a depressing downward slide for close to two years. The outlook was improving but nobody seemed to know if the light that was beginning to show at the end of the tunnel was actually an oncoming train.

Since early 2009 investments have been producing strong returns with the median balanced fund in positive territory for nine straight years - meaning there's a lot more happy faces going around, particularly for those with money in superannuation.

However this begs the questions, 'when is it going to end?' and 'when is the next crash going to happen?'. Investing is a lot like farming – you get some great years, some average years, and the odd drought along the way. Like droughts on the land a financial drought occurring is only a matter of 'when' not 'if'. It might not occur in 2019, it might not occur until 2025 but rest assured it will occur. Now (if not every year) is an important time to reflect on your investments and get your head in the right space for what is coming.

Gaining an insight into family's finances over the last 20 years I've regularly been asked is now a good time to invest and get out of cash, or is now the right time to sell and get into cash? Each question on its own is exceptionally difficult to answer but considering if you ask one then at some stage you're going to have to ask the second and the task of getting both questions right becomes impossible.

Accepting that financial droughts happen we've found that the wealthiest invest with a purpose and not just for the sake of it and the result is a happier, healthier life with a lot less worry. If you're expecting great returns, consistent returns, never look at your money but you only have one money goal then you need to read on.

Spending with a purpose

Every investment you have needs to have a purpose, in other words if you have money in a bank account then it needs to be for a dedicated reason that is specific to you and not a general idea of 'well it's safe there'. We advise clients to have three areas of *spending purpose* - 1. Now 2. Shortly and 3. Later.

Now

Any spending you have upcoming in the next five years is what sits in this area. Things such as groceries, utilities, fuel, car maintenance, annual holidays etc.

Shortly

The spending destined for the next ten years sits here, typically larger in their price tag. Think new fridge/washing machine, new car, overseas holidays, school fees etc.

Later

What comes later? Hopefully retirement, being debt free, maybe that once in a lifetime holiday or purchase of a business. Anything that is going to take ten years or more of dedicated saving to achieve.

Investing with a purpose

From *spending purpose* we can draw parallels with *investment purpose* and start to 'quarantine' the three spending purposes into three areas of investment risk. I like to call these time-based-risk-tanks.

Tank #1 is for all of your 'Now' money and the risk taken needs to be very low. This is exactly where your bank account and term deposits come into their own. Invest monies here for no longer than five years.

Tank #2 is for all of your 'Shortly' money and risk can be a little higher but not much. You could use a term deposit here but considering you will have a little more time (up to ten years) up your sleeve and you should be adding to it regularly then perhaps bonds/fixed interest investments could be appropriate.

Tank #3 is for all of your 'Later' money. Risk and return here needs to be higher as you won't be using this capital for at least ten years and you need to get better returns. I'm not talking about 'horse 7, race 6' here, I'm talking about quality business' listed in Australia and around the globe.

Market crashes are only devastating when you're forced to sell your investments at the worst possible time. Using tanks as my analogy allows us to think that of a farmer who has plenty of water in reserve will hopefully have enough time up her sleeve to wait for some rain to make the grass grow, the cattle fat and the decent buyers to come out of hiding. If you sell the farm in the middle of a drought then what price do you think you'll get?

Keep enough in tank #1 and tank #2 and you can stay happy and relaxed when the financial drought comes and tank #3 drops a little lower.

When you're next talking money with someone and they say they're not sure if they have enough left in the tank, ask them which tank they're talking about.

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