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Business Supplement 2010

IMPORTANT DATES TO REMEMBER

13 July 2010	PAYG Statements should be issued to employees
14 August 2010	PAYG Payment Summary Report to be sent to the ATO

PAY SUPERANNUATION GUARANTEE BEFORE

28 July 2010
28 October 2010
28 January 2011
28 April 2011
28 July 2011

QUARTERLY BAS DUE

28 July 2010
28 October 2010
28 February 2011
28 April 2011
28 July 2011

In most cases, Tax Agents receive additional time to complete and lodge BAS returns

**MONTHLY BAS IS DUE 21st OF
EACH MONTH - NO EXTENSIONS**

ATO System Upgrade

The Tax Office has spent \$450 million in upgrading their software. Not only will it allow them to be more efficient and be able to process returns much quicker but will enable them to identify clients for audit by cross referencing information held in their database. The Tax Office receives information from various sources which they use - information from other government departments such as Centrelink, Land Titles Office, Vehicle Registration, ASIC, Business Names Registration as well as from financial institutions.

Audits

The Tax Office is sending letters to taxpayers who they feel may have not included all their income on their Tax Returns—cash economy. The first letters have gone out to taxpayers advising them that their 2008 income does not match their industrial benchmarks. There are over 100 benchmarks available at the Tax Office for various industries—your industry may be included. You can check for your industry benchmark by going to the Australian Government Tax Website : <http://www.ato.gov.au> and type in the search engine “benchmarks” or once you are at the ATO website go to the Business tab and scroll down until you come to Small Business Benchmarks. Read the examples that apply to your business. Call me if you are having difficulties or your average is well below the benchmark. If you do not have access to the internet, I can post your industry benchmark to you.

The Tax Office is also receiving information from suppliers which they are matching against your income and expenses. The latest project is in NSW -Plasterboard Suppliers. The Tax Office obtains the sales made from the plasterboard supplier then compares this information against the taxpayer’s tax return. By using the industrial benchmark for plasterers, they can determine if there has been an under disclosure of income. This project could be extended to other states.

If you are selected for a random audit, the Tax Office will be looking at how you paid the tax withheld from your employees. They will compare your PAYG Payment Summaries with the amount of Withholding Tax submitted to the Tax Office via your BAS.

Do you have completed TFN Declarations and Choices of Superannuation Forms for your employees?

They will require a list of your contractors, their ABNs, dates and payments made to them. They will want to sight invoices from them showing their ABN. If there is no ABN, you may be required to submit 46.5% of their wages paid as ABN Withholding Tax.

You can see also that this little exercise may lead to additional audits for the Tax Office as they check on your contractors. It is very important that you hold information for your contractors or your claims could be disallowed.

They are keen to check if you have paid your Superannuation Guarantee to Super Funds for your employees and that it has been paid before the 28th day in the month after the end of the quarter.

Were you aware that you also may have to pay Super Guarantee for individual contractors?

Go to the Tax Office website www.ato.gov.au—Business and see the decision tool – “Are your workers employees or contractors?” If your employee supplies an ABN they still could be deemed an employee for Superannuation Guarantee purposes and Workcover.

Are your BAS’ up to date?

Are you liable for Fringe benefits Tax?

The Tax Office will be extending their audit activity to Fringe Benefits Tax (FBT) after a successful win in the courts regarding motor vehicle usage. I am sending you a separate letter explaining what you need to do to help protect against additional FBT to pay.

They will want to look at your accounting records, logbooks, invoices and records. The average time of this type of audit could be six months.

Personal Living Expenses

The Tax Office has a publication and it is available on their website at www.ato.gov.au. At the search engine type in “Personal Living Expenses” and it will take you to the guide. The Tax Office uses this guide to check if you have declared sufficient income to cover your personal living—download and fill out.

Under the New Tax Agents Regime we are now required to make a more detailed search of information supplied i.e. by checking benchmarks to your income etc.

We will, as a part of “Best Practice”, be required to have engagement letters for all Business Returns. This is adding extra burden to both you and us.

Trust Expenses

If your only income is from a distribution from a Discretionary Trading Trust, you will be denied any personal claims against that income on your Personal Tax Return, i.e. motor vehicle expenses, protective clothing, telephone usage, home office etc. We may have to register you as an employee of your Trust so you can make these claims. Please contact us now so we can set this up before the end of the tax year.

Losses

If you continue to make losses in your business you could be a target for an audit. Please check Personal Living Expenses so we can explain to the Tax Office if necessary how you are surviving.

Entrepreneurs Tax Offset

This has in past years been a good tax saving for small business. The new income test applies from 1 July 2009. This may mean that the offset is reduced or denied. This year your spouse's income and your other income will be included to check your eligibility for the offset.

Tax Break

For new assets purchased or ordered costing over \$1000 between the 1 July 2009 and 31 December 2009 for small business (that is businesses whose turnover is less than \$2 million) your income can be reduced by 50% of the cost price of the asset net of GST.

To claim the Tax Break this year for assets ordered before 31 December 2009, they must be delivered to you before the 30th June 2010. The latest date that delivery can be made to take advantage of the tax break is 31 December 2010.

Trusts

During this past year, the Tax Office had success in a case regarding Trust Distributions. The name of the case is "Bamford". The result of this win for the Tax Office is that we will need to examine the Trust Deeds to check that they comply. I will be checking with the supplier of the deeds for their recommendation. I will advise you in due course.

From July 1

As there are new PAYG Tax Withholding Rates for the tax withheld from wages as from 1 July 2010, you will need to pick up the new rates from your local news agent. The Tax Office has also advised that there will be new Tax File Number Declarations available for new employees as from the 1 July 2010. The old TFN declarations are no longer current.

Superannuation

If you receive more than 10% of your income from an employer, you will be denied a tax deduction for other contributions to the Super Fund.

Maximum deductible contributions including any Superannuation Guarantee:

Under 50 years of age	\$25,000
Over 50 years of age	\$50,000

If claiming more than the above figures, you will be hit with an additional tax of 31.5%.

As tax deductible superannuation contributions are taxed at 15% by the superannuation company, the additional tax increases the total tax on the excess contribution to 46.5%.

The Co-Contribution is here for the Sole Trader where 2010 income does not exceed \$61,920. The Co-Contribution amount is \$1,000 for a \$1,000 contribution of unclaimed deductions made to the Super Fund and Taxable Income is less than \$31,920. The Co-Contribution is reduced when Adjusted Taxable Income exceeds \$31,920 and it phases right out at \$61,920.

Tax Hint:

If your Taxable Income is less than \$31,920, consider not claiming as a deduction \$1,000 of your Super Contributions. The Government Co-Contribution is \$1,000 for unclaimed Super Contributions of \$1,000.

The tax rate changes at \$35,000 from 16.5% to 31.5%.

Tax Time Savings:

- Pay all outstanding accounts before 30 June.
- Pay your Superannuation obligations.
- Prepay some expenses.
- Do you know your estimated Taxable Income? Give us your trading information and we can prepare a forecast. You may be able to make decisions for tax savings or make additional contributions to Superannuation. Please phone 3396 1025 to make an appointment.

REMINDERS

How long since you have kept a motor vehicle log book?

To be able to claim your motor vehicle expenses, the Tax Office requires a new log book to be kept for 13 consecutive weeks every 5 years.

Record Keeping:

Please remember to keep all your business records (including receipts, tax invoices, bank statements, loan statements, etc) for 5 full financial years. This includes tax invoices for assets disposed of within the year.

To assist us with your work, would you please ensure that your business records for the year/quarter are provided to us in a neat and orderly manner. If using a manual cash book, each month should be totalled off and where applicable, reconciled with your bank statements. Please also have a column for personal drawings/cash expenses and make as many notes as possible.

If using a computer package, please ensure each period is reconciled to the bank statements and also provide a copy of the statements either by paper or email.

This will make our job much easier and should lead to a reduction in the amount of time spent on your work and therefore result in reduced fees.

Please get your BAS details to us as early as you can, as the next two months will be very busy.

This newsletter is intended to provide you with helpful information, however we recommend you contact us for more detailed advice.
