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## Wolff Tax Report 2014

Dear clients,

Welcome to the 2014 edition of the "Wolff Tax Report". During the year, I was fortunate to attend a seminar run by Craig Wilson of the PIC Group. I found this very educational and wish to share it with you. The seminar was about "how to recognize when to fix interest rates". If you would like to come to one of his seminars, please contact myself or Jayne and we will arrange an invitation. Below is an article by Noel Whittaker which appeared in the June/July 2013 Road Ahead magazine.

### "Property investors beware -

"FOUR YEARS AGO, the Storm Financial group collapsed, leaving investors with losses of more than a billion dollars. There is a worse crisis to come – it will be caused by property spruikers. This area is totally unregulated – this is why you will be on your own if you get taken in. Fortunately, the scam is easy to spot once you know what to look for. **First:** The approach will always come from the spruiker. This will either be by a 'free' seminar showing you how to become a millionaire, or else by a phone call to urge you to come to an interview where you'll be shown how to save tax while paying off your home faster. This is to get you in so they can put you under their spell. **Second:** Even though any seasoned property investor knows the way to wealth is to search out bargains for yourself, the spruiker will take control and try to convince you that they are the only people who can find the right property for you. This is so they can sell you an overpriced property. **Third:** There will nearly always be a building contract involved and the rationale is that you'll save stamp duty, get a new home, and therefore bigger tax breaks. The real reason is it gives the spruiker a better chance to load the price. **Fourth:** In most cases, they will be a one stop shop – once again, to say in control. You will find they control the lawyer, the mortgage broker, the builder, and the managing agent. **Fifth:** The properties will usually be situated in outlying suburbs and in lower socio-economic areas. Often, the properties offered will be in a different state to the one you live in. **Sixth:** There will invariably be a mortgage required over your own home. The last thing the spruiker wants is for a valuation to be done on the overpriced property they are trying to force on you. And they often use two different lenders, so that one lender does not know what the other one is doing. **Seventh:** Almost all of the schemes proposed by the spruiker involve leaving the interest on the investment loan to capitalize, so that you can use all the rents coming from the investment property to reduce the mortgage on your non-deductible home loan faster. This practice is NOT approved by the tax office. It's a sad state of affairs, and I urge you to take careful note of what I have written and circulate it as widely as possible. "

As with all investments, it is always in your best interests to do your own due diligence on the investment. Does it suit you? Can you afford it? A rule of thumb is the higher the return, the more risky the investment. "If it sounds too good to be true, then it usually is." From time to time I am approached by investment advisers who wish to help my clients make investment decisions and manage their interests. Larry Raymond, an investment adviser with Futuro has an interesting approach where you are able to complete a financial health check over the internet. Quite often I am offered spotter's fees from various investment advisers. If I should receive a fee, I will advise you and we can share the fee by me reducing your tax preparation fee. The balance of the fees received are earmarked for staff education.

Please advise me if you would prefer not to be approached or alternatively, if you would like to talk to someone about your financial future, I can pass your name on.

Now to the budget. Over successive budgets it seems that the Treasurer of the day seems to want to take away the tax advantages for the majority of taxpayers. For high income earners, there is to be a temporary tax levy of 2% to be introduced for taxpayers with a taxable income of more than \$180,000.

This new levy will take effect from 1 July 2014 and will be withdrawn on 30 June 2017.

There will also be an increase in the fringe benefit rate. To prevent high income earners from utilizing fringe benefits to avoid the levy, the FBT rate will be increased from 47% to 49% from 1 April 2015 until 31 March 2017 to align with the FBT income year. The cash value of benefits received by employees of public benevolent institutions and health promotion charities, public and not-for-profit hospitals, public ambulance services and certain other tax-exempt entities will be protected by increasing the annual FBT caps. In addition, the fringe benefits rebate rate will be aligned with the FBT rate from 1 April 2015.

Permanently lost to low income earners:

1. The dependent spouse tax offset (DSTO) will be abolished for all taxpayers from 1 July 2014.
2. The mature age worker tax offset will be abolished from 1 July 2014.
3. The First Home Saver Accounts scheme will be abolished from 1 July 2015.
4. Round 5 of the National Rental Affordability Scheme (NRAS) will not proceed.

So our refunds for the 2015 year will be reduced.

Other changes in the budget:

- a) The income threshold at which students commence repayment of their Higher Education Loan Programme (HELP) debts will be reduced with effect from 1 July 2016. In addition, HELP debts will be indexed at a rate equivalent to the yield on 10-year government bonds (up to a 6% maximum) instead of CPI from 1 June 2016. Loan fees for undergraduate FEE-HELP and VET FEE-HELP will be abolished.
- b) Various reforms will be introduced to the pension system including increasing the qualifying age for the Age Pension to 70 by 1 July 2035.
- c) The eligibility age for the Newstart Allowance and Sickness Allowance will increase from 22 to 24 years from 1 January 2015.
- d) Various reforms to the Family Tax Benefit (FTB) Part A and Part B payments will be introduced, including reducing the FTB Part B primary earner income limit to \$100,000 pa and changing certain eligibility requirements. A new \$750 allowance will be introduced for single parents on the maximum FTB Part A rate, but who will no longer receive FTB Part B payments due to eligibility changes. These measures largely commence on 1 July 2015, with some transitional arrangements.
- e) Changes will be made to the Medicare system relating to patient contributions, indexation of fees and thresholds, and Medicare safety net arrangements.

The mature age worker tax offset (MAWTO) will be abolished from 1 July 2014.

The government considers that encouraging mature age workers to participate in the workforce can be achieved more effectively through direct payments or incentives. Savings from this measure will be redirected to the government's expanded seniors employment incentive payment called Restart to support mature

age job seekers in re-entering the workforce. Under that measure, from 1 July 2014, a payment of up to \$10,000 will be available to employers who hire a mature aged job seeker, aged 50 years or over who has been receiving income support for at least six months.

**Tax receipts for individuals.** The ATO will issue taxpayers a tax receipt that shows in dollar terms how their taxes were spent on each budget area. In most circumstances, the tax receipt will be issued together with a taxpayer's notice of assessment. The government has indicated that this initiative will help to ensure that pressure is maintained on governments to spend taxation revenues wisely. The ATO will begin issuing tax receipts from 1 July 2014.

**Qualifying pension age increases.** The Age Pension qualifying age will continue to increase by six months every two years, such that it will reach a qualifying age of 70 by 1 July 2035. This measure will not affect those born before 1 July 1958. The following table sets out the Age Pension eligibility age by date of birth:

Date of birth between	Age at which eligible for Age Pension
1.7.1952 and 31.12.1953	65½
1.1.1954 and 30.6.1955	66
1.7.1955 and 31.12.1956	66½
1.1.1957 and 30.6.1958	67
1.7.1958 and 31.12.1959	67½
1.1.1960 and 30.6.1961	68
1.7.1961 and 31.12.1962	68½
1.1.1963 and 30.6.1964	69
1.7.1964 and 31.12.1965	69½
1.1.1966 and later	70

**Income test.** The government will change how it deems the return from a person's financial assets for the purposes of the pension income test. The deeming thresholds will be reset from \$46,600 to \$30,000 for single pensioners and from \$77,400 to \$50,000 for pensioner couples from 1 September 2017.

**Superannuation excess contributions tax.** For any excess superannuation contributions made after 1 July 2013 breaching the non-concessional cap, the government will allow individuals to withdraw those excess contributions and associated earnings. If an individual chooses this option, no excess contributions tax will be payable and any related earnings will be taxed at the individual's marginal tax rate. Individuals who leave their excess contributions in the fund will continue to be taxed on these contributions at the top marginal rate. Final details of the policy will be settled following consultation with key stakeholders in the superannuation industry.

**Have you changed your name?** If the name on the tax return does not match the name the tax office has on their records, your refund will be held up until they can verify your name. If you are not sure if your name change has been updated on the Tax office database, we can make a check for our clients. We can no longer update an individual or sole trader's name using our systems. If you need to lodge returns under a name that is not current on the Tax Office records, it will need to be updated with the Tax Office before you lodge your income tax return. You can update your name with the ATO over the phone by quoting details from an 'identity' document that they will then verify. Your record will be updated in real-time. You can call the Tax Office on 132861 between 8:00 am and 6:00 pm Monday to Friday. Of course we will still need to show the change of name on the tax return.

**Documents.** Before you phone, make sure you have with you your identity document, as listed below. If the Tax Office is unable to make the changes over the phone, they will provide you with details of other options for updating your name. Identify documents that can be verified over the phone are:

- Australian birth certificate (full certificate, not an extract)
- Australian citizenship certificate
- Australian passport
- Australian visa (using information from your overseas passport)
- Australian driver's licence.
- Australian Medicare Card

- Australian marriage certificate
- Australian change of name certificate

**Note:** They will verify the identity document details provided with the agencies who issue them.

#### Have you checked lately :-

- Are your Wills up to date?
- Do you have an Enduring Power of Attorney in place?
- Have you and your spouse set aside some money in your own names in case something happens to either one of you? Joint bank accounts could be frozen for some time in the case of death although the banks would pay utility accounts and funeral accounts on the provision of the invoices.
- Have you thought about life insurance, disability insurance – do you have adequate cover?
- Can you put extra funds into super – saving for your retirement?

#### Changes for This Year:

The Tax Free Threshold remains unchanged from last year.

Taxable Income 2013	Tax Plus % excess on tax	Taxable Income 2014	Tax Plus % excess on tax
to 18,200	NIL	0 to 18,200	NIL
18,200-37,000	NIL + 19%	18,201 – 37,001	NIL + 19%
37,001 – 80,000	3,572 + 32.5%	37,001 – 80,000	3,572 + 32.5%
80,001 – 180,000	17,547 + 37%	80,001 -180,000	17,547 + 37%
180,001 +	54,547 + 45%	180,001 +	54,547 + 45%

#### Health Insurance Rebate Changes

Either claimed through the tax system or a reduction in premiums paid to health insurance providers.

Health Insurance Rebate				
<b>Income singles **</b>	88,000 or less	88,001-102,000	102,001 – 136,000	136,001 +
<b>Income Couples **</b>	176,000 or less	176,001 – 204,000	204,001- 272,000	272,001 +
<b>Less than 65</b>	30%	20%	10%	NIL
<b>65-70 years</b>	35%	25%	15%	NIL
<b>70 years +</b>	40%	30%	20%	NIL

#### Medicare Levy Surcharge Changes

The Medicare Levy Surcharge has changed to graduated levels of the amount paid depending on your income.

Income for MLS purposes Single ^	Income for MLS purposes Couples	Surcharge Rate
\$88,000	\$176,000	0%
\$88,001 - \$102,000	\$176,001 – 204,000	1%
\$102,001- \$136,000	\$204,001 - \$ 272,000	1.25%
\$136,000 +	\$272,001+	1.5%

**Paying our fees is now easier.** For your convenience, we now have the facility where you can pay our fees by credit card over the phone or by completing the credit card details on the remittance advice attached to our tax invoice and statement. We accept Visa or Mastercard.

*Please note: It is the policy of this firm to only lodge returns upon receipt of payment and signed declarations.*

*Again this year, I will prepare your children's first return free of charge when completed with the parent's return.*