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## Wolff Tax Report 2015

Dear clients,

Welcome to the 2015 edition of the 'Wolff Tax Report'. In this edition, I wish to introduce a new staff member. Margaret Goss will be joining the team from the beginning of the new financial year. Margaret will be bringing with her the skills she has built up over 10 years working as an income tax return preparer and office supervisor. She has had a wide range of experience in preparing individual tax returns to small business tax returns. Welcome Margaret. We hope your stay with us will be both enjoyable and a bonus to our clients.

Time is running out if you have not lodged your 2014 tax return and you are receiving or intending to claim:

- Family Tax Benefits
- Child Care Benefit
- Single income family supplement

**Note:** You must lodge your individual tax return by 30 June 2015 to receive and to continue receiving your benefits. If you and your spouse have tax obligations, then both returns need to be lodged. The Tax Office advises if you do not have obligations to lodge tax returns and notified the Tax Office that you won't be lodging tax returns, you must also advise Centrelink even if you have an extension of time to lodge your 2014 tax return until after 30 June. Centrelink have different rules when assessing your eligibility for Centrelink benefits. They require lodgement by 30 June.

### ATO warns about aggressive phone scams

The ATO is again warning the public to be aware of a phone scam that is circulating, where fraudsters are intimidating people into paying a fake tax debt over the phone.

The aggressive scam attempts to force people to pay a fake tax debt immediately by threatening arrest if they don't comply.

*If any client receives a call from the ATO we recommend that they should ask for the caller's name and either call our office with the details or phone them back through the ATO's switchboard on 13 28 69.*

### Beware of tax-related email scams

The ATO will never send you an email requesting you to confirm, update or disclose confidential details via a non-secure channel such as email.

You should always independently verify the source before taking any action. If you receive a communication of this nature, do not respond to it. Forward it to ReportEmailFraud@ato.gov.au.

### On the Tax Office hit list this year:

#### Holiday homes that taxpayers rent out

The ATO has updated its information guide on claiming deductions on holiday homes. This may have something to do with its stated intention to increase its audit focus on holiday homes that are rented out.

Clients with such holiday homes may want to take notice of the following:

#### Claiming deductions on holiday homes

The principles that apply to a rental property also apply to a holiday home if it is rented out. If a taxpayer rents out their holiday home, they can claim expenses for the property based on the proportion of the income year it was rented out or was genuinely available for rent.

They must apportion their expenses if the property is used:

- For private purposes for part of the year – such as when they use it themselves, or allow their family, relatives or friends to use it free of charge; and
- By family or friends for part of the year and they are charged **less than** market rent.

If their holiday home is rented out to family, relatives or friends below market rates, their deductions are limited to the amount of rent received for that period.

#### Tax Tip: Keeping records for CGT purposes

Clients who own holiday houses should be aware that they need to keep records of their expenses.

If they make a capital gain when they sell the property, the proportion of expenses (interest, insurance, maintenance costs and council rates) they could not claim a deduction for are taken into account in reducing the amount of their capital gain.

#### Tax Office cracking down on 'unusually high' expense claims

Employees who make 'unusually high' work-related expense claims are under increased watch from the Tax Office this year as part of a national overhaul.

The Tax Office has warned it is better equipped than ever to identify and investigate claims that differ from 'the norm' due to enhancements in technology and data.

'These enhancements mean that every return is scrutinized and it is becoming a lot easier to identify claims that are significantly higher than those claimed by people with similar occupations and employment income,' assistant commissioner Adam Kenrick said.

Other claims being surveilled include those that have already been reimbursed by employers, and those for private expenses such as travel from home to work.

The Tax Office has provided three key points to qualify a work-related expense claim:

- You must have spent the money yourself,
- It must be related to your job, and
- You must have a record to prove it.

The ATO will be paying attention to work-related expenses relating to:

- Travel expenses related to overnight travel
- Reasonable travel allowance expense claims
- Claiming work-related proportion use of computers and similar devices

(Keeping documentary records such as diaries, tax invoices, receipts, and letters from employers stating that you are required to use these items.)

As with home office expenses (used when working from home and we make a claim on your tax return), records need to be kept each year. You should keep a diary for 1 month detailing:

1. The hours you work from home (more and more employees are now working from home some days rather than going into the office).
2. Total computer hours and work-related hours.
3. Total internet hours usage for the household and business hours use of the internet.

- 4. Personal mobile phone use for business. If you can obtain a detailed bill, highlighting all the business calls made will help to substantiate the business usage.
- Motor Vehicle Travel
  - Travel to and from work
  - Carrying bulky tools. Is there a secure storage place at work for your tools?

### Value of penalty unit to increase

The government will increase the value of all Commonwealth penalty units from \$170 to \$180, with effect from 31 July 2015. The government will also introduce ongoing indexation of penalty units based on the CPI. Indexation will occur on 1 July every three years, with the first indexation occurring on 1 July 2018.

### Tax Refunds

Tax refunds may be down this year due to the government withdrawing benefits available to taxpayers:

1. The Dependant Spouse Offset has been abolished.
2. Mature Age Workers Tax Offset has been abolished.

### Net medical expenses tax offset phase-out

The net medical expense tax offset (NMETO) is being phased out. To be eligible to claim the NMETO in your 2015 tax return, you must have received an amount of the tax offset in both your 2013 and 2014 notices of assessment. If you did, you can claim for all types of eligible medical expenses.

If you did not receive an amount greater than zero for this offset on both your 2013 and 2014 notices of assessment, you can only claim net medical expenses that relate to disability aids, attendant care or aged care.

The eligibility rule for the NMETO does not apply to taxpayers with out-of-pocket medical expenses relating to disability aids, attendant care and aged care. These expenses can continue to be claimed until 30 June 2019.

### Medicare levy increase

From 1 July 2014, the government increased the Medicare levy rate from 1.5% to 2% of taxable income for the 2014-15 income year and later income years to help fund Disability Care Australia.

### Temporary budget repair levy

As part of the 2014-15 federal budget the government introduced a temporary budget repair levy. From 1 July 2014, individual taxpayers with a taxable income of more than \$180,000 per year have had additional tax withheld by their employer. The levy is payable at a rate of two per cent of each dollar of a taxpayer's taxable income over \$180,000.

### Additional pay day

If there is an additional pay day in the 2015 financial year, i.e. 53 pays rather than 52, you may not have paid enough tax for the 53 pay year. Check with your employer each year if there will be an extra pay day during the year. The paymaster can take additional tax from each pay packet so you won't end up paying the tax man at the end of the year.

### Claiming car expense deductions – modernising the existing car expense claim methods

Currently, an individual (or a partnership which includes at least one individual partner) can claim car expense deductions in respect of a car owned or leased (e.g. by the individual) using one of the four methods in Division 28 of the ITAA 1997 (i.e. the 'cents per km method', the '12% of original value method', the 'one-third of actual expenses method' or the 'log book method').

From the 2015/16 income year, the government will modernise the methods of calculating work-related car expense deductions, as follows:

- The '12 per cent of original value method' and the 'one-third of actual expenses method' (which are used by less than 2% of those who claim work-related car expenses) will be removed.
- The 'cents per kilometre method' will be modernised by replacing the three current (cents per kilometer) rates based on engine size, with one rate set at 66 cents per kilometre (in respect of all cars). The Commissioner will be responsible for updating the rate in following years.

### Common errors

The Tax Office has identified the most common errors made on tax returns:

1. Omitting interest income
2. Incorrect or omitted dividend imputation credits
3. Capital gains/losses are incorrect or omitted
4. Understating income
5. Home office expenses
6. Depreciation on rental property fixtures and fittings
7. Depreciation on income producing buildings
8. Borrowing costs associated with negative gearing

**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.

### Release of superannuation for terminal medical condition – relaxing the release criteria

Broadly, before an individual with a terminal medical condition can currently access their preserved superannuation benefits (generally as a tax-free lump sum), two registered medical practitioners (including a specialist) must certify, jointly or separately, that the person is likely to die within a one-year period.

From 1 July 2015, the government will extend access to superannuation for people with a terminal medical condition by extending the above certification period (i.e., the period within which the individual is likely to die) to two years. This will give terminally ill patients earlier access to their superannuation entitlements.

*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.*