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Practice Update

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AUGUST 2012

ATO Compliance Program 2012/13

The ATO has released its 'Compliance Program 2012/13' outlining key focus areas attracting its attention for the coming year, stating that it is important for the community to be given the opportunity to understand the ATO's compliance activities and practices.

Focus areas identified by the ATO as significant risks to tax and superannuation compliance this year include:

- ❑ occupations that have shown a pattern of relatively high levels of work-related claims, including IT managers, plumbers and defence force non-commissioned officers;
- ❑ high income earners involved in tax avoidance schemes, with a particular focus on widely-marketed financial products that promise substantial tax benefits, as well as investments by medical practitioners;
- ❑ unreported cash transactions within the plastering and café industries;
- ❑ contractor arrangements, in particular in the construction industry, and the SMSF sector; and
- ❑ employer obligations for superannuation in high risk industries.

Stopping false claims and identity crime are a continuing priority this year, with the ATO increasingly analysing and matching information provided by third parties.

The ATO checks over 600 million transactions a year to detect those who do not report all their income from things like dividends and interest, capital gains, and foreign income.

Last year they stopped more than 109,000 income tax returns for potentially incorrect or fraudulent claims "saving the community almost \$200 million in revenue".

ATO discretion to retain refunds – recent changes

The tax law has recently been amended to provide the ATO with the discretion to retain refunds while they undertake integrity checks on claims.

The changes are designed to "support those doing the right thing and strengthen our ability to identify possible fraudulent activity", although certain threshold tests must be met before the discretion can be exercised.

The amendment applies to:

- refunds claimed on a Business activity statement (BAS); and
- refunds claimed by full self-assessment taxpayers for income tax purposes (primarily companies and super funds);

but does not apply to individuals for income tax purposes, and normal processes for them still apply.

The amendments set out the steps the ATO needs to take, including notifying the taxpayer when a refund will be retained, and the relevant timeframes.

GDP adjustment for 2012/13 PAYG instalment amounts

The ATO has advised that, from 1 July 2012, the gross domestic product (GDP) adjustment used to work out quarterly PAYG instalment amounts will be 6%.

Editor: This is the adjustment made to PAYG instalment amounts to reflect expected changes in the economy, to ensure that PAYG instalment amounts reflect a taxpayer's expected tax liability for the current income year as accurately as possible.

As the GDP adjustment is worked out using information from earlier years, the ATO notes that this means it may not match current economic conditions.

That is, when economic growth slows, the GDP adjustment may seem relatively high, while in conditions of sudden economic growth, the GDP adjustment may seem relatively low.

*Editor: If your PAYG instalment amount as worked out by the ATO seems too high (or too low), please contact our office, as we may be able to vary the instalment amount (although it should be noted that the 'general interest charge' may be payable if the PAYG instalment amount is varied **down** but at the end of the year the taxpayer ends up having paid less than 85% of the tax that they should have paid on their business and investment income).*

New building industry taxable payments reporting system

Businesses in the building and construction industry now need to report to the ATO (from the 2012/13 income year) the total payments they make each year to each contractor for building and construction services.

The aim of the system is to improve voluntary compliance with tax obligations by those contractors who are currently not doing the right thing.

Businesses will only need to report if all of the following apply:

- they are primarily in the building and construction industry;
- they make payments to contractors for building and construction services; and
- they have an Australian business number (ABN).

Businesses are only required to report the total of the payments made (i.e., on a cash basis) to each contractor during the year, not the individual amounts.

Where the invoice from the contractor includes both labour and materials, whether itemised or combined, it is the total amount of the payment that needs to be reported.

The first annual report is due by 21 July 2013 for payments made in the 2012/13 financial year, although if businesses lodge their BASs quarterly, for this first year they may lodge by 28 July 2013.

Editor: Please contact us if you think these new reporting rules may affect you.

Car depreciation limit for 2012/13

The ATO has advised that the car depreciation limit for the 2012/13 financial year is \$57,466 (unchanged from the 2011/12 year).

Example

On 9 July 2012 a taxpayer purchases a motor vehicle for \$65,000 wholly for use in carrying on their business.

In working out the vehicle's depreciation for the 2012/13 income year, the cost of the vehicle for depreciation purposes is basically reduced to \$57,466.

Editor: Note, however, that the luxury car tax threshold for 2012/13 (which is used to determine if luxury car tax is payable), has increased to \$59,133.

Reasonable Overtime Meal Allowance Amounts – 2012/13

The reasonable amount for overtime meal allowance expenses, where an allowance is paid under an award, order, determination, industrial agreement or a Commonwealth, State or Territory law, is \$27.10 per meal for 2012/13.

An overtime meal allowance (being an allowance paid for food and drink in connection with overtime worked) which does not exceed the reasonable amount does not need to be shown on the payment summary, and the employee may not need to show it on their tax return if it has been fully spent on deductible expenses.

Editor: Please contact us if you would like to know the other reasonable allowance amounts, such as for travel, set out by the ATO.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.