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Practice Update

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August 2019

Tax cuts become law

The Government has announced that more than 10 million Australians will receive immediate tax relief following the passage of legislation through the Parliament, which increases the top threshold for the 19% tax rate from \$41,000 to \$45,000 and increases the low income tax offset from \$645 to \$700 in 2022/23.

In combination with the legislated removal of the 37% tax bracket in 2024/25, the Government is also "*delivering structural reform to the tax system*" by reducing the 32.5% tax rate to 30%.

Low and middle income tax offset also now law

In addition, from the 2018/19 income year (i.e., last income year):

- ◆ The low and middle income tax offset ('LAMITO') has been increased from a maximum amount of \$530 to \$1,080 per annum and the base amount increased from \$200 to \$255 per annum; and
- ◆ Taxpayers with a taxable income:
 - of **\$37,000 or below** can now receive a LAMITO of up to \$255;
 - **above \$37,000 and below \$48,001** can now receive \$255, plus an amount equal to 7.5% to the maximum offset of \$1,080;
 - **above \$48,000 and below \$90,001** are now eligible for the maximum LAMITO of \$1,080; and

- **above \$90,000 but is no more than \$126,000** are now eligible for a LAMITO of \$1,080, less an amount equal to 3% of the excess.

The ATO is implementing the necessary system changes so taxpayers that have already lodged their 2018/19 tax return will receive any increase to the LAMITO they are entitled to (any tax refund should be deposited in the taxpayer's nominated bank account). There will not be any need to request an amendment.

Those who are yet to lodge their tax return will have any offset they are entitled to taken into account during the normal processing of their return.

ATO "puts the brakes" on dodgy car claims

The ATO is making work-related car expenses a key focus again during Tax Time 2019.

Assistant Commissioner Karen Foat said over 3.6 million people made a work-related car expense claim in 2017/18, totalling more than \$7.2 billion.

"We are still concerned that some taxpayers aren't getting the message that over-claiming will be detected and if it is deliberate, penalties will apply," she said.

"While some people do make legitimate mistakes, we are concerned that many people are deliberately making dodgy claims in order to get a bigger refund. We see taxpayers claiming for things like private trips, trips they didn't make, and car expenses their employer paid for or reimbursed them for."

One in five car claims are exactly at the maximum limit that doesn't require receipts.

Under the cents per kilometre method, taxpayers don't need to keep receipts, but they **do** need to be able to demonstrate how they worked out the number of kilometres they travelled for work purposes.

The ATO's sophisticated analytics compares taxpayer claims with others earning similar amounts in similar jobs.

Where the ATO identifies questionable claims, they will contact taxpayers and ask them to show how they have calculated their claim, and in some cases the ATO **may even contact employers** to confirm whether a taxpayer was required to use their own car for work-related travel.

Case studies

The ATO's sophisticated data analytics found a range of unsupported claims in 2018, including:

- When the ATO asked a taxpayer to provide the logbook to support a claim of \$4,800, they found the taxpayer was referring to a car service logbook rather than a logbook kept for calculating their work use car percentage (the taxpayer had not undertaken any work-related car travel during the year).
- Another claim was flagged by the ATO's analytics indicating a taxpayer, a retail worker, had incorrectly claimed \$350 for the cost of public transport to and from work.

- The ATO also identified an office worker claiming \$3,300 for 5000 kilometres of work-related travel using the cents per kilometre method, but it turned out the taxpayer's claim was based on trips he made from home to work.
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Private health insurance statements now optional

Taxpayers with private health insurance should be aware that insurance providers are no longer required to provide statements to their members.

Taxpayers lodging their tax returns using a registered tax agent should have their health insurance details 'pre-filled' into their return (but they will need to contact their health insurer if they cannot get this information for some reason).

FBT and taxi travel

Taxi travel by an employee is an exempt benefit for FBT purposes if the travel is a single trip beginning or ending at the employee's place of work (or if it is a result of sickness or injury in certain circumstances).

However, the ATO is reminding taxpayers that this exemption is limited to travel undertaken in a vehicle that is **licensed to operate as a taxi** by the relevant State or Territory, and does **not** extend to travel undertaken in a ride-sourcing vehicle or other vehicle for hire that do not hold such a licence.

ATO rates and thresholds

Editor: The ATO has updated a number of rates and thresholds on their website, including the following.

Division 7A – benchmark interest rate

The Division 7A benchmark interest rate for the 2020 income year is 5.37% (up from the rate for the 2019 income year of 5.20%).

Car cost limit for depreciation

The maximum value taxpayers can use for calculating depreciation of cars is the car limit in the year in which they first used or leased the car. In the 2019/20 income year, the car limit is \$57,581, unchanged from the 2018/19 year.

Capital improvement threshold

The improvement threshold for the 2019/20 income year is \$153,093, up from \$150,386 for the 2018/19 income year.

SMSF LRBA interest rates

An interest rate of 5.94% charged by an SMSF in the 2020 income year under a limited recourse borrowing arrangement ('LRBA') to acquire real property would be consistent with the ATO's safe harbour terms (or 7.94% for listed shares or units).

ATO Data Matching Program: HELP, VSL and/or TSL debts

The ATO is conducting a data matching program for the 2019/20, 2020/21 and 2021/22 financial years to identify individuals with an existing Higher Education Loan Program ('HELP'), Vocational Education and Training Student Loan ('VSL') and/or Trade Support Loans ('TSL') debt who may not be meeting their registration, lodgment and/or payment obligations.

This data collection is expected to involve approximately 3 million individuals each year.

<p>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.</p>
