Practice Update

Please read this update and contact this office if you have any queries

SEPTEMBER 2006

CPI for June quarter 2006

The CPI indexation factor for the June quarter 2006 was 154.3 (up from 151.9 for the March 2006 quarter).

Entrepreneurs' tax offset and PSI

To be eligible to claim the new entrepreneurs' tax offset, an individual who receives personal services income (PSI) must be a simplified tax system (STS) taxpayer.

The ATO has recently stated that individuals who receive PSI directly (as opposed to receiving PSI indirectly through a partnership, trust or company) are not automatically eligible to enter the STS and claim the offset.

To be eligible to be an STS taxpayer, the individual must be carrying on a business, which will depend on the facts of each case.

Editor: This is quite a complicated area, so if you are receiving PSI, directly or indirectly, you should contact us to ensure you can claim the offset.

Self-help service to pay tax debt by instalments

Taxpayers who owe the Tax Office less than $25,000 can use a self-help service to call the ATO and enter into a payment arrangement with them.

A taxpayer may be eligible to pay their tax debt by instalments if they meet the following conditions:

- the outstanding debt is less than $25,000;
- the taxpayer is unable to pay the debt off in full by the due date;
- the debt can be paid off by instalments within two years; and
- the taxpayer has adequate funds to enter into the payment arrangement and meet any future tax obligations on time.

Editor: If you would like us to assist you to enter into a payment arrangement with the ATO, please contact this office to discuss details of the arrangement you would like to make (such as the first payment date, payment frequency and payment amounts).

New child care benefit tax rebate

Editor: As you are no doubt aware, the Government introduced a 30% child care benefit tax rebate after the last election.

Under the conditions of this complex rebate, eligible taxpayers can claim a rebate for child care expenses incurred in 2004/05 in their 2006 tax return.

The following case study, adapted from a number of case studies provided by the ATO, sets out some of the issues associated with claiming the rebate.

Ben and Robyn both worked full time in 2004/05 and had two children in approved child care: David and Bella.

As Robyn claimed Child Care Benefit (CCB) she may claim the rebate in her 2006 tax return.

Robyn's tax agent has access to the Family Assistance Office data, and can obtain the data she needs to claim her rebate on her tax return, being her 'Total fees for eligible Child Care Benefit hours' and her 'Child Care Benefit entitlement'.

David's after school care fees were $5,650 and Bella's long day care fees were $15,000.

Robyn's Child Care Benefit entitlement was $420 for David and $2,550 for Bella.

Robyn's rebate for her 2006 income tax return is calculated as follows:

	David	**Bella**
Total fees	$5,650	$15,000
less CCB entitlement	$ 420	$ 2,550
Out of pocket expenses	$5,230	$12,450
x 30%	$1,569	$ 3,735

Robyn's total rebate for both David and Bella is $5,304 ($1,569 + $3,735).

Also, Robyn wants to transfer any unused rebate to Ben to help reduce his tax liability.

To transfer her unused rebate (in case there is any), Robyn's tax agent completes the relevant information in the Spouse Details section of her tax return, showing Ben's TFN at the correct label.

Ben and Robyn also complete the transfer agreement (in the approved form provided by the Tax Office), and file a copy of the agreement with their 2006 tax return records.

Ben does not need to provide any additional information on his tax return for him to receive any unused rebate, as the Tax Office will automatically transfer any amount to which he is entitled once Robyn's income tax return has been processed.

Note: According to the Family Assistance Office, all eligible families can receive some Child Care Benefit regardless of income.

Simplified GST accounting method

The ATO has set out a new simplified GST accounting method for eligible restaurants, cafes, and catering businesses with an annual GST-exclusive turnover of $2 million or less.

From 1 October 2006, eligible retailers can basically choose to calculate their input tax credits on trading stock by taking a sample of acquisitions over two 4-week periods and using this sample to establish the percentage that represents their GST-free acquisitions.

Eligible food retailers won't need a tax invoice for any input tax credits claimed using this method.

Editor: If you are interested in this simplified accounting method, or would like to discuss some of the other simplified accounting methods for GST, please contact this office.

Main residence exemption: More than meets the eye!

Editor: The main residence exemption is a very valuable CGT exemption, which, if the criteria are met, can mean there will be no tax on the sale of a taxpayer's home.

However, although it sounds simple, the application of the exemption can be very complicated. If you are considering selling or have sold your home, or even a rental property, please contact us to ensure you don't pay more tax than you need to.

The ATO has recently decided that a taxpayer was entitled to a **full** main residence exemption on the sale of their house, even though they had rented the house out at one stage, and the house was not the same house that had been on the land when they first moved in!

In this case, the taxpayer:

- purchased a house in late 1996 and lived in that house until mid 1998;
- rented the house out until early 2002;
- demolished the house and built a new house in mid 2002 that became their main residence in late 2002; and
- continued to live in the new house until it was sold in late 2004.

Due to the way the main residence exemption works, the ATO accepted that there was an unbroken period of main residence occupancy on the land from the time the original house became the taxpayer's main residence in late 1996, until the new house was sold in late 2004.

Therefore, even though the taxpayer rented out the original house, and it was then demolished and replaced by a new house, the taxpayer was entitled to a full main residence exemption.