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# Practice Update

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and contact this office  
if you have any queries

NOVEMBER 2005

## Tax Office Audits for 2006

### Individual taxpayers

This year the Tax Office expects to scrutinise, through their risk analysis, over 750,000 individual taxpayers. Main targets this year will be:

- Capital gains on the sale of:
  - rental properties;
  - vacant land;
  - holiday homes; and
  - shares and managed fund investments.
- Rental income and expenses
- Deductions for work expenses
- Occupations in the firing line:
  - Construction tradespeople including plasterers, roof tilers, painter decorators and plumbers.
  - Food processing and preparation workers – butchers, abattoir workers and chefs.
  - Dance, drama and music instructors.
  - School teachers and academics.
  - Health care professionals.

#### **Example – Property sales not declared**

*Editor: The Tax Office gave the following example of the kind of non-compliance they are targeting and that they run into.*

A husband and wife partnership in Victoria bought land and built homes for resale for several years.

The GST input tax credits they claimed for the 2003/04 year were higher than previous years and their income varied significantly from similar types of businesses.

The ATO checked property records and found the couple had not declared income on five property sales.

This resulted in a GST shortfall of \$186,145 and an \$83,390 penalty. They also failed to report other income in partnership returns resulting in an income tax shortfall of \$358,090 and a \$179,045 penalty.

*Editor: The problem with coming to the ATO's attention is that it can lead to other problem areas.*

### Small Business Taxpayers

#### **Cash economy – target occupations**

This year, the ATO's cash economy investigations will focus on:

- Building and construction industries.
  - Mortgage and loan brokers offering low doc (low documentation) loans.
  - Restaurants, cafes and take-away food outlets.
  - Motor vehicle wholesalers and retailers.
  - Licensed hotels and registered clubs.
  - The adult industry.
  - Bartering arrangements.
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- Horse racing industry.
- Fishing industry.
- Tourism operators.

### **Cash economy and the building and construction industries**

The ATO says it will be paying particular attention to building and construction businesses that reduce their taxable income by not reporting cash received from householders.

Some of the techniques the ATO uses to catch such businesses include:

- matching the amount of materials used to income declared;
- matching appointment and quote books to invoices for consumer transactions;
- tracing owner-builder transactions with tradespeople, using local council records;
- checking the accounts of trade outlets with the businesses that use them; and
- checking local papers for cash operators and businesses operating outside the tax system.

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### **Super splitting starts 1 Jan 2006**

The Government has introduced the Superannuation Splitting Bill (under which contributions are allowed to be 'split' or shared with a spouse) to Parliament.

It says that "This will allow non-working or low income spouses to accumulate their own superannuation, and gives families more choices in how they prepare for their retirement."

The start date has been brought forward to 1 January 2006 – meaning that contributions made on or after that date will be able to be split where funds offer this service to their members.

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### **Reducing red tape on business**

The Treasurer has appointed a Taskforce to cut red tape and find practical solutions to reduce the compliance burden on business from Government regulation.

The Taskforce's main object will be to provide practical options to alleviate the Commonwealth's

(and States') 'red tape' burden on business, including family-run and other small businesses.

The Taskforce will consult closely with business groups and other stakeholders.

For clients who are interested, the Website address is [www.regulationtaskforce.gov.au](http://www.regulationtaskforce.gov.au).

The Government also intends to introduce a new annual review process to examine the cumulative stock of Australian Government regulation and identify an annual red tape reduction agenda.

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### **New Super help for business**

The Government has introduced legislation that goes some way to helping businesses that forget to pay their employees' superannuation on time.

Currently, employers who make a late contribution to a super fund are still bound to make that payment on behalf of the employee but, in addition, must pay the non-deductible superannuation guarantee charge (SGC) to the Australian Taxation Office.

Under the new legislation, employer contributions made for an employee to a super fund within one month of the superannuation guarantee due date can be used to offset the SGC for the quarter that relates to that employee.

Unfortunately, such late payments will not be tax deductible.

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### **Interest and dividend checks**

Each year the ATO runs an income matching program whereby information supplied by:

- banks;
- other financial institutions;
- companies;
- Centrelink; and
- employers;

is matched with taxpayers' returns to check that interest and dividends (including distributions from managed funds) are correctly reported.

Last year around 36 million records were matched raising additional revenue of \$176 million from some 320,000 taxpayers who had failed to report income. The ATO expects to match 40 million records this year.

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.