

NEWSLETTER - July 2011

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Welcome to our July Newsletter!

Many of our regular readers may have noticed the conspicuous absence of the April edition of our newsletter this year.

I couldn't find a better excuse for not writing it than, I was busy honeymooning in Hawaii with my lovely wife, Robyn, after our wedding on the 15th of April.

Fortunately though I have returned, well rested and just in time for tax season to rear it's ugly head again!

This years' Budget was dominated by minor tweaks to the tax system rather than sweeping reforms. Many of the initiatives announced are also not scheduled to commence until the 2012-13 financial year.

As a result, the 2011 income tax return itself contains few changes compared to previous years due to minimal changes in legislation.

As usual, we have tried to highlight some of the key changes in our newsletter. We hope you enjoy the read and look forward to seeing you soon.

A handwritten signature in black ink that reads "Anthony Jelich".

Anthony Jelich MTMA JP
Accountant

Tax Time 2011

Be Prepared & Save Time

While there have only been minor changes to the information requirements for compiling a tax return this year, we require our clients to complete a questionnaire each year prior to preparing their tax returns. This allows us to better understand our clients and provide personalised tax advice about their individual circumstances.

Following on from it's success last year, we have again made our Client Information Questionnaire available on our website, www.austaxaccountants.com.au. Completing this form before arriving at our office means that our accountants can start preparing your tax return immediately upon your arrival

Our website also contains an Individual Tax Return Checklist for use by our clients.

The checklist lists the types of information that need to go into your tax return and what documentation you will need to satisfy the ATO should you be subject to an audit or review.

We also ask our clients to ensure they bring all of their tax documentation and receipts in with them and have their receipts categorised and totalled. This ensures that we are able to finalise your tax return within the time allocated for your appointment.

Can't Make It To Our Office?

Many of our clients are unable to make it to our office to have their tax returns completed face to face.

Fortunately, with the technology available these days this presents no problem. You can post, fax or e-mail your job to our office from anywhere in the world and still receive the same great Austax service.

Clients who wish to take advantage of this service can simply download and complete our Client information Questionnaire and forward it to us along with your tax records.

For clients mailing their job in, please ensure you address your letter to our post office box and don't forget to use registered mail if you are posting us original documents.

For elderly or disabled clients who are unable to make it up our stairway we also offer a home visit service to the local area. Please contact our office to arrange an appointment.

Do You Need to Lodge?

Not all Australians are required to lodge a tax return. In particular retirees and those earning very low incomes may be exempt.

Even though you may not be required to lodge a return you are still required to lodge a non lodgement advice with the ATO.

If you are uncertain as to whether or not you are required to lodge a 2011 tax return, please call our office to speak with our accountants who can advise you.

Are you are a target?

The ATO has also announced that this year it will be focusing on claims for work related expenses of people employed as;

- Earthmovers
- Flight Attendants
- Carpenters & Joiners (including apprentices and trainees)
- Real Estate Agents & Employees

While the ATO targets different occupation groups each year, this does not mean that they ignore taxpayers of other occupations so we all still need to keep our receipts to verify our claims.

The ATO has also announced that undisclosed and incorrectly calculated capital gains tax (CGT) will again be a target this year after 400 reviews of claims in 2010 resulted in an additional \$7 million in tax revenue!

Dependent Spouse Tax Offset to be Phased out

As part of the cost cutting measures announced in the 2011-12 Budget, the Government has announced that from the 1st of July 2011 it will phase out the dependent spouse tax offset for taxpayers with a dependent spouse born on or after 1 July 1971.

Taxpayers with an invalid or permanently disabled spouse, supporting a carer, or people who are eligible for the zone, overseas forces and overseas civilian tax offsets will not be affected by this change.

The House Always Wins

Due to a recent High Court decision in Commissioner of Taxation vs Anstis, recipients of Austudy, Abstudy and Youth Allowance will now be able to claim deductions for study expenses they incur.

The ATO is also amending returns for 2007 onwards for recipients of these government payments to include a standard \$550 deduction for study expenses for each year of eligibility.

Hot on the heels of the ATO defeat in the High Court, the Government has introduced legislation to amend the tax law effective, 1st July 2011 to prevent deductions being claimed against all government assistance payments, meaning that 2011 tax return will be the last in which such claims can be made.

The moral of the story is, the Tax Office always wins.

Education Tax Refund Expanded

Since it's introduction, the Education Tax Refund (ETR) has been criticised for being too focused on giving parents refunds for spending money on technology items like computers and educational software, rather than more mundane expenses such as school uniforms and school fees.

Fortunately things look set to change. The Government has announced that (legislation pending) from 1st July 2011 school uniform expenses will be eligible expenses under the ETR. This means that commencing with the 2012 tax return families that qualify for the ETR will receive a refund of up to 50% on amounts that they spend on school uniforms.

Better late than never.

The Flood Levy

Commencing from the 1st of July 2011, most of us will notice the deduction of a few extra dollars from our pay each payday to cover the new Flood Levy.

The flood levy is only payable by taxpayers earning more than \$50,000 and in most cases will be deducted automatically by your employer where applicable.

Certain recipients of an Australian Government Disaster Recovery Payment and people affected by an event declared as a natural disaster under the Natural Disaster Relief and Recovery Arrangements are exempt from the flood levy.

In most cases individuals exempt from the flood levy will receive a letter from the ATO confirming your exemption status and containing a Flood Levy exemption declaration.

If you believe that you meet the exemption criteria and have not received a letter, please contact our office.

HECS Voluntary Payment Discount Slashed

The Government will, from 1 January 2012, reduce the following discounts applying to payments made under the Higher Education Contribution Scheme (HECS):

- the discount available to students electing to pay their student contribution upfront will be reduced from 20 to 10 percent; and
- the bonus on voluntary payments to the ATO of \$500 or more will be reduced from 10 percent to 5 percent.

At first glance this decision appears rather foolish. One would expect that with the

reduction in the discount, the incentive to make early, voluntary payments would also reduce and strain the Governments' cashflow even further.

Closer inspection reveals that most taxpayers that have made a voluntary repayment do so less than twelve months before their HECS debt is fully repaid.

This is due to a quirk of the HECS system that has been used by tax agents for quite some time now to save our clients money.

If a taxpayers' compulsory contribution for a financial year would be enough to extinguish the debt in full, they could save themselves 10% of the outstanding debt by simply making a voluntary repayment to pay out the debt prior to lodging their tax return.

While the discount reduction will not close the loophole it does make the savings significantly less valuable so our advice to affected clients is lodge your return early to take advantage of the higher discount while you still can.

Changes to Salary Packaging of Vehicles

One of the few changes announced in the May budget to take immediate effect is the adjustment to the Fringe Benefits Tax (FBT) treatment of motor vehicles.

Previously, employers with FBT levied on motor vehicles provided to their employees were able to opt to measure the value of the benefit provided using a sliding scale provided under the statutory fraction method. The sliding scale meant that the taxable value of the benefit reduced as the number of kilometres travelled by the vehicle increased.

This nuance meant, employees who travelled above average kilometres in their cars each year were able to access potentially

significant tax savings by incorporating a vehicle into their salary package.

With effect from 7:30PM on 10th May 2011, the Government has announced that the sliding scale will be gradually replaced with a flat rate of 20% over the next few years as shown in the chart below.

Distance travelled during the FBT year (1 April - 31 March)	Statutory rate (multiplied by the cost of the car to determine a person's car fringe benefit)				
	Existing contracts	New contracts entered into after 7:30pm (AEST) on 10 May 2011			
		From 10 May 2011	From 1 April 2012	From 1 April 2013	From 1 April 2014
0 - 15,000 km	0.26	0.20	0.20	0.20	0.20
15,000 - 25,000 km	0.20	0.20	0.20	0.20	0.20
25,000 - 40,000 km	0.11	0.14	0.17	0.20	0.20
More than 40,000 km	0.07	0.10	0.13	0.17	0.20

While this change has no effect on taxpayers with current salary packing arrangements, the changes will have the following impacts;

- Employees with vehicles approaching the end of their lease may find that it is no longer advantageous to continue with their salary package arrangement,
- Employees with high work/business use of their vehicles may discover that swapping the company car for a car allowance may now be more tax effective,
- As the new 20% rate is actually lower than the highest rate that applied under the old rules, employees that travel very low kilometres may find that for the first time a salary packaged vehicle may be worthwhile.

On a lighter note, the changes also mean that many employees can cancel their annual March roadtrip around Australia to ensure they have travelled enough kilometres.

Salary packaging remains a useful option to legally minimise your tax obligations but as always, the golden rule is to seek advice from professionals, like Austax, before you act.