TAX MATTERS

Tax strategies for you and your business

EDITION 12– 2014

INSIDE

- Avoiding the usual GST errors
- Claiming personal technology as a tax deduction
- Division 7A and family breakdown
- ATO targets false Medicare exemptions

LOGAN & HALL
Accountants & Advisers

Avoiding the usual GST errors

It is common for businesses to make GST errors in their BAS. The majority of these mistakes are unintentional.

The ATO recently reviewed all of the BAS adjustments made as a result of auditing and revealed that over 80% were the result of inadvertent GST mistakes.

Examples of common mistakes include: clerical errors such as duplications or accidental omissions, sales being incorrectly recorded as GST free, or accidentally recording a GST-free sale as taxable.

Getting your BAS right the first time around can save your business time and money, and ensure that you receive your refund as soon as possible.

Regular and meticulous bookkeeping can make a significant difference to the accuracy of your BAS. It is also important to retain any relevant documentation including tax invoices for purchases that included GST and all electronic records.

The ATO has indicated that it will be lenient towards businesses with mistakes in the BAS unless there is an indication that the business has been reckless in their record keeping, or have deliberately provided misleading information.

Here are some tips for ensuring accuracy on your BAS:

- Confirm that all expenses and sales were incurred within the specified tax period
- Do not enter cents into your BAS (whole dollar amounts only)
- Ensure that none of the expenses claimed were private expenses
- Double check that the amount you have calculated on your BAS is equivalent to what you expect to receive as a refund
- Lodge your BAS online, as the online portal will pick up on many common mistakes

If you have made any errors on your BAS then you have the option of simply correcting them on your next BAS yourself. This will not subject you to any liabilities or general interest, and is generally much simpler than redoing the past BAS. However, this is not possible if your error is outside the correction limits.

Business categories that have been identified as being at high risk of GST errors include construction, professional services, wholesale trade, retail and logistics.

LOGAN & HALL

Liability limited by a scheme approved under Professional Standards Legislation.

22-24 McCallum St
Swan Hill
VIC 3585

TEL (03) 5032 1121

FAX (03) 5032 9906

EMAIL
service@loganhall.com.au

WEBSITE
www.loganhall.com.au

PARTNERS
Gary Tomamichel
Andrew Gilchrist

CONSULTANT
Donald Logan

Claiming personal technology as a tax deduction

As personal technology devices such as laptops, smartphones and tablets, are becoming increasingly prevalent, the ATO will be focusing its attention on individuals claiming tech items as work-related tax deductions.

Currently, Australians claim almost $19.5 billion each year in work-related expenses, and an increasing number of tech items are being included each year.

It is common for individuals to use such items for both business and personal use, leading to some complexities in claiming them as a tax deduction.

If you are using a tech item for both business and personal use, then you can only claim a tax deduction for the portion equivalent to what you use for business purposes. For instance, if you have a laptop that you use 60% for business use and 40% for personal use then you can only claim 60% of its depreciation each year as a tax deduction.

If an item is valued at over $300 then you cannot claim the entire cost as a tax deduction in the year of purchase. You will instead need to calculate the depreciation each year. Allowances for depreciation for personal technology devices are determined by the ATO.

In light of the ATO announcement, it is advisable to retain all documentation relating to the breakdown of your use of any tech related expenses.

If you have concerns about your ability to provide the ATO with proof of business use, you may wish to make brief diary entries as this is considered an acceptable form of proof.

There may be other costs associated with tech devices, such repairs or interest paid on a loan for purchase, that you can also claim as tax deduction. Again, you can only claim the portion equivalent to what you use for business purposes.

The ATO also distinguishes between an upgrade and a repair: the cost of an upgrade over $300 needs to be depreciated annually, whereas the full value of a repair can be claimed in the year of purchase.

Division 7A and family breakdown

The ATO has made its final ruling on the application of Division 7A to relationship breakdowns.

If a private company is ordered by the family court to make a payment or transfer an asset to a separating partner, then the settlement will be treated as a distribution of profits for tax purposes.

The ruling has also clarified that the marital party will be treated as a shareholder for tax purposes, meaning that they will be able to access franking credits where applicable.

Division 7A of the Income Tax Assessment Act 1936 (ITAA) has been designed to ensure that private companies cannot distribute funds to shareholders, or parties related to shareholders, to avoid a tax liability. Under Division 7A when a shareholder or associated party is given a payment or has a debt forgiven by a private company, the amount is considered as a dividend for tax purposes and is taxed at the individual's marginal tax rate.

The ATO ruling, therefore, has increased the likelihood of negative tax implications for separating partners receiving a payout from a private company.

In the event that a family court order requires a private company to transfer property to a matrimonial party, the transfer will result in a matrimonial deemed dividend, and the private company will be able to defer the capital gains tax liability until the marital party decides to sell the property.

The ATO has acknowledged that this ruling is contradictory to a large number of previous private rulings and interpretive decisions. It has also been indicated that the ATO will not seek to review any of its past decisions pertaining to marital breakdown and division 7A. However, any matters that are brought to the ATO as of 30 July 2014 will be considered in line with the most recent ruling.

ATO targets false Medicare exemptions

A recently announced ATO initiative will target individuals who are falsely claiming an exemption on the Medicare levy.

Using metadata matching technology, the ATO will aim to ensure that individuals are meeting their tax obligations.

The program is also predicted to identify a number of individuals who do qualify for the exemption, but have not yet received it.

Approximately 130 000 Australians qualify for the exemption.

The Department of Human Services will provide the ATO with the data necessary for them to identify people who do qualify for the exemption in the 2013-14 and 2014-15 financial years.

The ATO also believes that it will identify individuals who are attempting to avoid the Medicare levy surcharge.

The Medicare levy increased from 1.5% to 2% this year to help fund the NDIS, and the Medicare levy surcharge is calculated at 1-1.5% of total income.

Tax Matters is for guidance only, and professional advice should be obtained before acting on any information contained herein. Neither the publishers nor the distributors can accept any responsibility for loss occasioned to any person as a result of action taken or refrained from in consequence of the contents of this publication.