

TAX MATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

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LOGAN & HALL
Accountants & Advisers

Negative gearing for property investors

Negative gearing is arguably the most generous tax break available to Australian property investors.

Whether you're an established property investor or contemplating purchasing your first investment property, you may care to familiarise yourself with the way that negative gearing works.

A property is considered to be negatively geared if the owner has taken on debt in order to acquire it and the net rental income is less than the costs of maintaining the property (including the interest paid on the loan).

Investors with negatively geared properties are able to claim the shortfall between their associated costs and rental income as a deduction against their total taxable income.

In the event that your taxable income is insufficient to absorb the difference, then the remaining deduction can be carried forward to the next financial year.

Many Australians would not be able to enter the real estate market without taking on some form of debt. While taking on debt allows you to make investments that would otherwise have been beyond your reach, it also ramps up your risk profile because you will have a greater amount invested. Furthermore, if your investment property is underperforming, you remain responsible for making loan repayments.

Obviously, it is preferable to have an investment property that is positively geared, meaning that rental income covers loan repayments, interest and routine maintenance. Paying tax on a profit

is typically considered to be a better option than minimising your tax liability while making a loss. Investors who have long term negatively geared properties are generally hoping to incur long term profits from capital growth.

Even if you think that your investment property will be positively geared, understanding the benefits of negative gearing can give you a little peace of mind. You know that if the property does lose money, you will be able to offset the loss against your taxable income.

When a property is positively geared, the income earned is added to your total taxable income. As such, it is taxed at your marginal tax rate. The same applies to any capital gain that you make from selling a property.

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Share transactions: ATO digging deep into records

The ATO has indicated that it intends to undertake an extensive examination of share transactions - dating all the way back to 1985!



The objective of the data matching activity is to identify taxpayers with capital gains that have not been included in their taxable income. It is also likely that the investigation will reveal any inconsistencies in reporting of Employee Share Schemes (ESS).

In order to undertake this investigation, the ATO will be accessing the details of entities' share records dating back over twenty years. It is estimated that in the process over 95 million records will be obtained, including the records of 1.2 million individual taxpayers.

By matching sale and purchase details, the tax office hopes to identify taxpayers that have failed to report capital gains made from share transactions.

Individual taxpayers who have failed to report a capital gain from shares (or disclose shares from an ESS) may care to contact the tax office to have the relevant tax return amended.

ATO targets motor vehicles

Over two million motor vehicle records are set to be examined in an attempt to identify non-compliant taxpayers.

Records for the sale, transfer and registration of vehicles valued at over \$10 000 will be scrutinised for the 2013-14, 2014-15 and 2015-16 financial years. These records will be provided by the relevant state bodies, and data matched against the ATO's own information from the same time period.

There are a number of compliance issues associated with owning and transferring motor vehicles, all of which will be investigated as part of the program.

Areas of tax that are relevant to motor vehicles include: GST, income tax, FBT, luxury car tax, and fuel schemes.

Both incorrect calculations and failure to disclose relevant information will be targeted, as will taxpayers who have purchased vehicles at a price that is inconsistent with their taxable income.

Anyone who is concerned that there may be motor vehicle related compliance issues in previous tax returns should contact our office to discuss their situation.

The tax issues surrounding vehicles are complicated and often subject to change. It is therefore always advisable to seek professional advice in order to be confident that you are paying the correct amount of tax.

Minimising your FBT bill

The end of the FBT year is fast approaching, and employers may notice that their FBT bill is running a little higher than usual.

The reason for this is that the FBT rate has been raised from 46.5% to 47%, along with increases to type 1 and type 2 gross-up rates. From April 1 2015 the FBT rate will increase again to 49%.

This increase to FBT is being introduced to prevent high-income earners from avoiding the temporary 2% deficit levy by increasing their non-cash benefits. It will remain in place until March 31 2017, the same calendar year that the deficit levy is set to expire.

While these increases to FBT may seem small, they can accumulate to increase your business's tax liability by a significant amount. Here are a couple of ways that you may be able to reduce your FBT bill:

Benefits that are not subject to FBT

There are several types of benefits that do not attract FBT, for example, some types of living away from home expenses and cars where there is no personal use component. Laptops and personal electronic devices that are used primarily for work purposes are also exempt from FBT.

However, there is a limit of one for each employee per FBT year, and you must be able to prove that it is used primarily for work purposes.

The 'otherwise deductible' test

You may care to consider providing your

employees with expense payment benefits that satisfy the 'otherwise deductible' rule. The 'otherwise deductible' test is satisfied when the benefit provided is one that the employee would have been able to claim as a legitimate deduction from their own taxable income.

Recipient's contributions

Where an employee makes a contribution towards a benefit from their after-tax income, then this will reduce the employer's FBT liability. If the employee's contributions reduce the FBT liability to zero, then it may be possible for the employers to avoid paying FBT and lodging an FBT return.

Replace benefits with cash salary

There is always the option of replacing an employee's benefits with an increase in their cash salary. This means that the income will be taxed at the employee's marginal tax rate, and you will not have any FBT liability.

Minor benefit exemption

In some circumstances, minor benefits may be exempt from FBT. This will occur in the event that: the value of the benefit is less than \$300 per employee (including GST), the benefit is provided on a one-off or infrequent basis, or if it would be unreasonable to treat the minor benefit as fringe benefit.

Employers who are interested in making the most of the minor benefit exemption should note that the exemption is only available if your business is using the Actual Method of valuing entertainment benefits.

