Tax & Super News

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HOME OFFICE DEDUCTIONS

What substantiation will the ATO accept?
Home office expense claims are subject to the same general substantiation requirements as other deductions – that is, it is a requirement that records should be kept for at least five years.
But in practice, full compliance with the substantiation rules may be difficult. It may be simple to keep a receipt for a printer purchased for a home business, but not so easy to prove the deductible proportion of a specific utilities bill. So the ATO has provided some administrative guidelines to ease this burden.

PROVING BUSINESS USE PROPORTION

The ATO will generally accept these three methods of calculating the business use proportion for a particular expense (in order of preference):

- Explicit evidence of business use – such as an itemised phone bill.
- Records of representative periods of use – such as a diary record spanning a four-week period (see below for details).
- A "reasonable estimate" – the ATO does not define this term, but the taxpayer must be able to demonstrate that such a component was "reasonably likely" under the circumstances.

PROVING BUSINESS USE PROPORTION

Claims exceeding $50
The ATO requires a taxpayer to keep records for a four- week representative period in each income year in order to claim a deduction of more than $50. The taxpayer can choose to keep records for longer than four weeks or to base their deduction on itemised bills (see above) for the entire year for a more accurate deduction.

The four-week record is merely the minimum amount of record-keeping that the ATO will accept. It is not a legal requirement to produce a time-limited representative record like the 12 week log book for car expense deductions.

According to one of its fact sheets, the ATO will look favourably upon evidence that the employer expects the taxpayer to work at home or make work-related calls.
But be aware that employer expectation is not a legal requirement. Under legislation and taking into account common law covering work-related expenses, it is enough that the expenditure is incurred in the course of producing assessable income and is not private, domestic or capital in nature.

Claims that are less than $50
Claims of $50 or less are not generally subject to substantiation checks (although it is not explicitly stated). This however only affects the substantiation of the amount, and does not change the fact that the relevant expense still has to be deductible under law.
Therefore it would be prudent for the taxpayer to be able to show that they had a reasonable basis for making the claim (for example, to keep evidence that some work was done at home during the year).

SHOPPING FOR A LUXURY CAR?

Beware of the Luxury Car Tax

If you buy a car worth more than $64,132 (2016-17), the government considers this to be a luxury car. It's not an over-the-top price tag if you're considering true luxury, but it's enough to cop an extra tax.

The luxury car tax (LCT) kicks in after that threshold is reached, is been set at a rate of 33%, and applies to the amount that exceeds the $64,132 threshold. From a typical car buyer's point of view, where the tax is payable it will already be factored into the price quoted by a dealership or car yard.

Before the goods and services tax era (from July 1, 2000) luxury cars were slugged with a 45% wholesale sales tax. The luxury car tax that replaced it was set at 25%, but has been 33% since July 1, 2008.

The tax is in addition to GST, and that price threshold includes GST but not charges such as stamp duty or compulsory insurance. And the amount of tax is calculated only on the vehicle's value over the threshold, not the GST portion of it (that is, there's no tax on top of a tax).

It also applies only to those registered for GST, so private sales are generally not covered (although it can still apply if you import a luxury car).

It's important to note that businesses acquiring a luxury car will be restricted in their claim for GST credits to the luxury car threshold, so if the car costs more than $57,581 for 2016-17 (which is the figure used for luxury car depreciation purposes), GST credits are not available in respect of the excess. In other words, the maximum GST credit you could claim will be
$5,235.

ANY EXCLUSIONS

Yes there are. Generally speaking, vehicles not included are emergency vehicles, trucks or vans that carry more than two tonnes, and passenger carrying vehicles such as buses. Cars that are specially fitted out to transport disabled people are generally excluded (if the vehicle is supplied inclusive of GST).
Cars that are more than two years old escape the tax, so in general the LCT applies to mostly new vehicles
– a second hand luxury car which has had some depreciation may therefore be a good buy.
Fuel-efficient cars (that is, those that burn less than seven litres of fuel per 100 kilometres) are given a break. As long as the fuel-efficient vehicle costs less than $75,526 (for 2016-17), there's no LCT to pay.

So keep this tax in the back of your mind when you shop for your next set of wheels.

TAX DEBTS?

ATO TO BEGIN REPORTING TO CREDIT RATINGS AGENCIES

The Federal Government's Mid-Year Economic and Fiscal Outlook (MYEFO) included an announcement that from 1 July 2017 the Australian Taxation Office (ATO) can disclose to Credit Reporting Bureaus the tax debt information of businesses that have not effectively engaged with the ATO to manage those debts. This will be a new and unprecedented power for the ATO.

This measure is part of the Government's strategy to reign in overdue tax and improve transparency of taxation debts, and will initially only apply to businesses with an Australian Business Number and tax debt of more than $10,000 that is at least 90 days overdue

The policy should not come as a surprise given it has been on the Government's agenda for a number of years, having been touted at least as far back as 2014.

The MYEFO confirms the ATO is owed $19b in overdue tax, approximately two thirds of which is owed by small businesses with a turnover under $2m. The rising level of debt, particularly in small business, presents a growing challenge for the ATO as they are faced with managing the delicate balance of collecting tax arrears without (where possible) suffocating the cash flow of the business

Compounding this challenge, the current consequences for failing to pay the ATO have no real tangible impact on the day-to-day operations of a business. Failure to lodge and general interest charge penalties, and in some instances imposing personal liability on directors, do not typically influence a business continuing to trade.

This means that ATO debt is often pushed to the back of the queue, and will be allowed to accumulate—often until the ATO pursue legal proceedings.

That landscape is about to change, as defaults being recorded on a taxpayer's commercial credit file will have immediate and lasting consequences for a defaulting taxpayer. A credit default is a black mark that lasts for five years, and creates an environment where support from financiers may be withdrawn and supplier credit stopped.

Given the potential ramifications for small businesses in particular, it is evident that policy implementation must be carefully considered and managed to avoid potentially imposing irreversible damage on thousands of small businesses from 1 July 2017. It also remains to be seen how the ATO will wield this new power when it comes to debt that is in dispute.

Clearly, there has never been a more important time to engage with the ATO to manage unpaid tax, and the strategy of buying more time by 'burying your head in the sand' is a thing of the past.

Mobile Finance apps to help you invest and better manage your money

A C O R N S

Acorns is a spare change investment app that links to your bank account and credit cards. Every time you make a purchase, the app will "round up" your purchase to the next dollar i.e. if you spend $3.50 on a coffee, the app will automatically "round up" your purchase by 50 cents to $4. This 50 cents is then automatically deducted from your bank account and transferred to your Acorns account where it is invested in a diversified investment portfolio of your choice.

There are 5 model investment portfolios for you to choose from, which are constructed using Exchange Traded Funds (ETF's) listed on the ASX. The ETF's all pay dividends which are automatically reinvested for you.

You can make additional investments and withdraw your savings from your Acorns account at any time.

The cost structure once you start using the app is two-tiered: those with below $5,000 pay just $1.25 per month, while those with over $5,000 pay 0.275% annually (charged on a monthly basis).

Acorns is a great option for people who are looking for an easy, low cost savings & investment tool.

P O C K E T B O O K

Pocketbook makes expenses tracking & budget planning easy. The app sync's with your bank accounts and is able to keep track of every cent you spend, showing data in real time so that you're always up to date with your finances.

Where Pocketbook differs is that it's designed to not only track your spending, but also help you manage your money. It can sync with a large number of banks including CBA, Westpac, ANZ, NAB, St George, Bankwest and others. This means that your money feeds are consolidated, showing you a net balance of all your funds. It can also help you manage your bills. by auto-detecting bills in your transaction history and when a new bill is due , the app will send you an alert.

Another feature is the "Safely Spend" budget. You can set an amount of money that you can safely spend on a weekly and daily basis. As you spend money, the counter goes down, showing you the remaining amount at the top of the screen, so that you always know exactly how much money you are allowed to use and can budget it over the remaining days accordingly. It also shows you how much money you have already spent — and what you have spent it on.

So if you are looking for a tool to help manage your finances, it is hard to go past this award winning app. Best of all -its free!

THE RISE AND RISE OF ETF'S

Background

Exchange traded funds , or ETFs, are attracting increasing attention from investors with a growing range of products available on the Australian Securities Exchange.

ETFs were first introduced in the US in 1993 . They have since become one of the fastest growing investment products in the world. In Australia, the ETF Market is currently worth about 20 Billion dollars - that's an increase of over 20% since January 2015.

What are ETFs?

ETFs are a type of investment that can be bought and sold like shares, through your stockbroker or online trading account. In Australia, all ETFs are 'passive' investments that track assets or a market index (for example, an index that tracks the top 200 Australian shares) up or down. ETFs generally do not try to outperform those markets or assets, and are often promoted as an easy way to diversify your investments, usually with lower fees than traditional managed funds.

"ETFs Track an Index, but trade like a share"

Index-based ETFs carry all the benefits of traditional index funds, such as low operating costs, diversification, tax efficiency and simplicity. As ETFs are traded on the exchange they replicate changes in price in the underlying holdings throughout the day.

How can you use ETFs in your investment portfolio?

ETFs are a simple and cost-effective way of gaining broad market exposure across a range of asset classes. Diversifying across and within asset classes helps to reduce volatility and smooth out returns over time.
The ease, flexibility , diversification and low cost of ETFs make them an innovative and effective investment solution.

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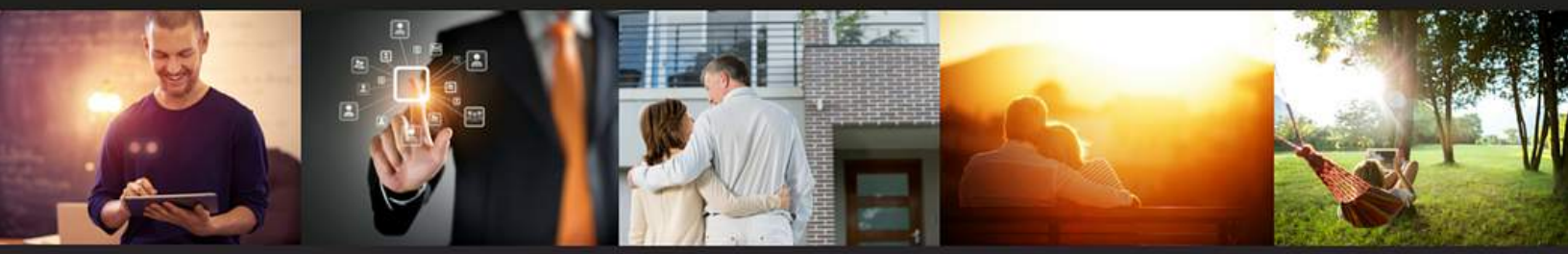

"HELPING OUR CLIENTS MAKE BETTER FINANCIAL DECISIONS"