



## Financial Navigator



Newsletter May 2012

### IN THIS ISSUE



### Federal Budget 2012

Wayne Swan delivered the Federal Budget speech on 8 May 2012. See what changes were announced and how they will affect you.



### Tax Tips for Businesses

Last issue we gave 10 tips for individuals at tax time. Now, we look at what businesses can do to save tax before 30 June deadline.



### ATO review process

Many taxpayers would have experienced delays in 2011; expect the same in 2012...

## Federal Budget 2012

### Individuals

The following previously announced measures will not proceed:

- The 50% discount for interest income.
- A Standard deduction for work related expenses and the costs of managing tax affairs.

### Tax rates

Taxable thresholds from 1/7/ 2012:

Resident Thresholds	Marginal rate (%)
Up to 18,200	0
18,201 to 37,000	19
37,001 to 80,000	32.5
80,001 to 180,000	37
180,001 plus	45

**Tax-free threshold** increases to \$18,200 from \$6,000.

**30% Private Health Insurance Rebate** will be means tested from 1 July 2012 based on family taxable income.

**Flood Levy** of 0.5% to 1% depending on taxable income ending on 30 June 2012.

Taxable thresholds for non-residents from 1 July 2012:

Non-resident thresholds	Marginal rate (%)
Up to 80,000	32.5
80,001 to 180,000	37
180,001 plus	45

### Other changes

Increase in **Family Tax Benefit Part A** for eligible families from 1 July 2013.

Complex **Education Tax Offset** will be replaced by new simplified **Schoolkids Bonus** of \$410 for primary and \$820 for high school aged children from 2013.

### Businesses

#### Main changes:

1. Govt will not proceed with proposed measure to reduce corporate tax rate to 29%.
2. Carry back of revenue losses for companies. Companies and entities taxed like companies will be able to carry-back revenue losses and obtain a refund of tax previously paid.
3. Reforms that restrict LAFHA status of an employee to a period of 12 months for a particular work location.

### Superannuation

Significant reforms announced to the superannuation system.

Currently, concessional contributions are taxed at 15% irrespective of individual's income. Such contributions are currently subject to an annual cap of \$25,000 or \$50,000 for individuals aged 50 and over.

The 2010/11 Budget proposed that individuals aged 50 and over with superannuation balances less than \$500,000 would be able to make annual concessional contributions up to \$50,000 from 1 July 2012.

#### Budget change....

From 1 July 2012 concessional contributions made by individuals with income greater than \$300,000 will be effectively taxed at 30% rather than 15%.

The proposal to enable individuals aged 50 and over with super balances less than \$500,000 to make annual concessional contributions up to \$50,000 will now start from 1 July 2014.

This is bad news for taxpayers who planned on contributing \$50,000 in 2012/13 financial year.

## Tax Tips for Businesses

Saving tax requires proactive action. Start organising things now, before the 30 June deadline. Every dollar you save in tax is another dollar to reinvest in your business. Here are some strategies to reduce your tax bill.

### Hold off on invoicing

A day or two can make a difference, hold off on sending out some invoices until after 1 July and you delay the tax liability. The income will be taxed in the following year deferring any tax payable on that income for another year. You must keep your tax bracket in mind for both years however; you don't want to end up paying a higher tax rate on the deferred income.

### Vehicle purchase

Small businesses can claim up to \$5000 as an immediate deduction for buying a **new** motor vehicle. The rest of the value of the vehicle can be pooled in the general small business pool – depreciated at 15 per cent in the first year, then 30%.

### Asset write-offs

Small businesses can also write off capital assets instantly up to \$1000. The threshold from 1 July 2012 increases to \$6500, so delay purchasing assets with cost between \$1001 and \$6500 till the new financial year. This is not apportioned so even if purchased on 30 June and value is less than \$1000 then can write-off instantly – **great tax savings with this one!**

### Prepayments

An immediate deduction for prepaying expenses up to 12 months in advance by 30 June (such as leases, interest, rent, business travel, insurances and subscriptions).

### Bad Debts

For a business to get a tax deduction on its bad debts, it must physically write off the debt prior to 30 June. The easiest way to do this is to put your decision in writing, such as a board minute or an



email to the bookkeeper. You will also need to show that you have made a genuine attempt to recover the debt.

### Scrap Stock

Have you got any old plant or stock that you simply can't sell? Then write it off before 30 June and get a tax deduction for it this year.

### Superannuation

Superannuation gets a bad rap because of poor performance of commercial funds since the GFC. But it is still a very effective tax-saving strategy and you can invest in low-risk investments by asking your superannuation advisor to do so. You just have to ask!

Why pay up to 46.5 per cent in tax on drawings out of the business when you can pay just 15 per cent?

There are many changes but up to June 30 this year business owners aged under 50, you can put up to \$25,000 into superannuation and it will be taxed at only 15 per cent. If you're aged 50 or over, and have less than \$500,000 in super, you can contribute up to \$50,000.

Make sure you get your contributions in before June 30. Check with your superfund as many funds have a cut-off date between 20 June and about the 25<sup>th</sup> of June. If you pay after cut off then you can only claim in the 2013 financial year

and the rules change so you might lose out of some or all of your deduction.

### Claim before spending a cent

Just because you haven't paid for something doesn't mean you can't claim for it. Businesses can get an immediate deduction for certain expenses that have been "incurred" but not paid by 30 June 2012, including:

- Salary and wages – claim the number of days that employees have worked up to 30 June, but have not been paid until the new financial year
- Directors' fees – claim a tax deduction for directors' fees that are "definitely committed" to at 30 June and have passed an appropriate resolution to approve the payment
- Staff bonuses – claim a tax deduction for staff bonuses and commissions that are owed and unpaid at 30 June where the business is "definitely committed" to the expense
- Repairs and maintenance – claim repairs undertaken and billed by 30 June but not paid until the next financial year.

## ATO REVIEW PROCESS

## ATO's approach to managing income tax returns held for integrity checks

ATO's view on integrity checking of income tax returns:

*"We have a responsibility to government and the community to make sure that everyone pays the correct amount of tax under the law. We conduct programs each year where selected returns are reviewed before issuing the assessment. Tax returns that are held for review and action before release include returns identified as containing 'high risk' refund claims.*

*We are now using specialist technology to help identify and review tax returns that may contain missing or incorrect information. Claims outside normal occupation or industry ranges will result in a thorough review of all aspects of an individual's tax affairs before a refund is issued. We understand that the time taken to process the income tax returns held for integrity checks has an impact on some of you."*

### Why have delays occurred?

In 2010, the ATO checked around 29,000 returns and found more than 20,000 refunds were incorrect or fraudulent. This year, they expect to review even more returns to remove any incorrect or fraudulent claims before refunds are issued.

Since 1 July 2011, 106,000 tax returns with refund claims totaling \$447 million have been

held. This has meant that the processing of some tax returns has taken longer than anticipated and resulted in delays in receiving an expected refund.

To date, the reviews have resulted in amendments to 80% of held returns. These results support the necessity to review these types of claims.

### What can you expect in the 2012-2013 processing year?

Based on the results of the integrity checks conducted to date the ATO will be continuing with reviews in the coming year. Processing delays will unfortunately result from such reviews but the ATO will provide updates to professional accounting bodies; communicate their processes and progress; improve their practices to more efficiently review held returns in a timely manner.

### Advice to taxpayers.

Taxpayers can reduce the chances of amendment by following the guidelines below:

- Keep receipts for all tax claims – scanned copies are best as carbon paper receipts fade over time
- Make sure receipts are in the name of the taxpayer claiming them (donations are often disallowed because receipt is in name of a spouse)
- Obtain claims statements from Medicare and Private Health insurer if claiming the medical expenses offset.

- Keep a valid logbook if claiming for work travel. An auditor will pick holes in a make-shift logbook in minutes.
- Travel diaries are maintained for any travel claims for business trips.
- Income protection premium statements obtained from insurer for tax year showing tax-deductible premiums.
- Claims for mobile phone and/or internet usage are backed up by statements showing additional usage for work purposes. ATO is not allowing these claims if taxpayer cannot prove additional costs. Cap plans are considered private.

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