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NEWSLETTER
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June quarter CPI

The Consumer Price Index (CPI) number for the June 2005 quarter is 148.4 (up from 147.5 for the March 2005 quarter).

ATO's 2005/06 Compliance program

Editor: Since 2002/03, the Tax Office has released a 'Compliance Program' each year, setting out its specific targets for the coming year. The 2005/06 Compliance Program follows the trend set in previous years, but there are some surprising elements.

Unannounced visits

The Tax Office will be visiting 11,000 businesses unannounced to check their identification and registration details.

Targets for this special treatment are generally:

- the property, building and construction industries;
- restaurants, cafes and takeaway food outlets;
- the motor vehicle wholesaling and retailing industry;
- licensed hotels and registered clubs;
- the adult industry;
- bartering;
- horse racing;
- fishing; and
- tourism.

Industry norms – an example of how the ATO puts them to use

As part of its ongoing audit programs, the Tax Office has advised that they use a range of industry norms and ratios that they collect from all activity statements for particular industries.

This gives them their 'normal' boundaries for different industry groups.

For example, they calculate:

- average 'expenses as a percentage of total sales'; and
- 'wages as a percentage of total sales';

and identify businesses that are operating outside these norms or ratios.

How they try and target cash avoiders

They also use industry information to determine if the level of income being reported is reasonable.

For example, industry information indicates that an average of 110 cups of coffee can be made from a kilogram of coffee beans.

This can be used with other information obtained from a cafe to calculate income from coffee sales compared to total income declared.

Similar approaches may be used in other industries.

They say they realise that not all businesses outside the industry norm are doing the wrong thing and (they say) they take the individual circumstances of each business into account.

Planning opportunity: The otherwise deductible rule and joint loans

The Tax Office has recently confirmed the existence of a planning opportunity for couples who own rental properties jointly, especially where one member of the couple has a much higher income than the other member.

A recent Interpretative Decision states that, where an employer provides a low interest loan jointly to an employee and their spouse, and the loan is used to jointly acquire an income producing property, the loan is not subject to any fringe benefits tax (FBT) due to the application of the 'otherwise deductible rule'.

This is because the loan is deemed to be provided to the employee alone, and, since the interest payments on the loan would be 'otherwise deductible' to the employee, no FBT is payable on the loan.

This means that the employee and the spouse can share the income of the property jointly, but the employee can effectively claim all of the deductions.

Editor: The implications of this ID should not just be limited to where the employee obtains the loan from the employer, but also where an employee salary packages a loan obtained from a third party lender. Please contact this office if you would like to discuss how you can utilise this planning opportunity.

"LowDoc" loans targeted

The Tax Office commenced a project last year that investigated people using low\ documentation (LowDoc) loans on the basis that many people using these products may have either understated their income or failed to lodge income tax returns.

This year the Tax Office will systematically:

- check the lodgment status of people obtaining LowDoc loans;
- review the income disclosed in the returns lodged by people obtaining LowDoc loans; and
- match the information provided to insurance companies where the LowDoc loans require mortgage insurance.

The Tax Office will also continue to concentrate on identifying high-risk brokers so that it can review whether they and their clients are complying with their tax obligations.

GST on long-term non-reviewable contracts

Long-term non-reviewable contracts that were GST-free during the initial transitional period cease to be GST-free after 30 June 2005.

From 1 July 2005, there are three ways to account for GST on a long-term non-reviewable contract:

- the supplier pays the GST on a revised contract price, as agreed with the recipient;
- the supplier pays the GST on the existing contract price; or
- the recipient (even if not registered for the GST) pays the Tax Office the GST on the existing contract price.

Suppliers or registered recipients liable to pay the GST will account for it on their usual activity statements. Unregistered recipients will be subject to the same reporting and payment obligations as GST registered recipients.

Editor: Please contact this office if you think you may be affected by these changes.

No deduction for fees paid to a psychologist

The AAT has held that fees paid to a psychologist by a nurse who worked in an extremely stressful work environment were not deductible because treatment for physical or mental health is inherently private in nature (even though it helped him progress in his career).

Furthermore, the fees were not rebatable medical expenses as the psychologist was not a legally qualified medical practitioner.

Unfortunately for the taxpayer, the Tribunal made the point that all that may have been required for him to receive the rebate was to arrange for his general practitioner to formally refer him for psychotherapy.

The articles contained in this newsletter are intended for information only and not for advice. For further information or advice, please contact your nearest office.

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