News Bulletin

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Accountants & Business Advisors

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TAX DEVELOPMENTS UPDATE

Reporting cash payments: ATO to begin more business visits soon

As part of the government's broader crackdown on the cash economy, the tax office has flagged that it will soon be visiting more clients to check they are reporting their cash payments.

The ATO has already conducted nationwide 'Protecting honest business' visits in a bid to monitor reporting compliance with cash payments.

It's set for a new round of visits soon, in areas where its data matching shows businesses are not accepting electronic payments. "While we know not every business is doing the wrong thing, we found over 60 per cent of the businesses we visited so far need to take some kind of corrective action," the ATO said in a recent statement release.

This follows the ATO visiting about 400 small businesses operating with a heavy focus on cash transactions last year and found that poor record keeping was a big issue.

Issues they found include businesses:

- Estimating their sales income
- Using the "no sale" and "void" button on cash registers when taking cash payments
- Not keeping cash register tapes and not reconciling at the end of the day; and
- Paying their employees cash-in-hand

The ATO's work is part of a massive government crackdown on the black economy in Australia. In December 2016, the Turnbull government launched a taskforce dedicated to those who use cash payments to avoid tax and superannuation obligations.

Proposed Criminal sanctions for Super Guarantee(SG) breaches.

The ATO's risk assessments carried out indicate that between 11% and 20% of employers could be non-compliant with their SG obligations and that non-compliance is "endemic, especially in small businesses and industries where a large number of cash transactions and contracting arrangements occur."

At present, if an employer fails to meet their quarterly SG payment on time they need to pay the SG charge (SGC) and lodge a Superannuation Guarantee Statement. The SGC applies even if you pay the outstanding SG soon after the deadline.

The SGC is particularly painful for employers because it is comprised of:

- The employee's superannuation guarantee shortfall amount – so, all of the SG owing
- Interest of 10% per annum, and
- An administration fee of $20 for each employee with a shortfall per quarter.

Unlike normal SG contributions, SGC amounts are not deductible, even if you pay the outstanding amount. That is, *if you pay SG late, you can no longer deduct the SG amount even if you bring the payment up to date.*

New legislation seeks to introduce a series of changes to how employers interact with the SG system and give some teeth to the ATO to pursue recalcitrant employers.

The new rules, if passed by Parliament, generally come into effect from 1 July 2018, and include:-

- directives from the Commissioner to pay an outstanding SG liability with fines and criminal penalties of up to 12 months in prison, for failure to comply with a direction to pay
- direction to employers to undertake an approved course relating to their SG obligations
- authorising the ATO to tell current and former employees about the failure (or suspected failure) of an employer to comply with their SG obligations.

PHOENIX ACTIVITY CRACK-DOWN

The government has announced a package of reforms to crack down on "phoenixing" activity - the stripping and transfer of assets from one company to another by individuals or entities to avoid paying liabilities.

The reforms include the proposed introduction of a Director Identification Number (DIN) and a range of other measures to deter and penalise phoenix activity.

It is intended that the DIN will allow company directors to be identified with a unique number, and that the DIN will interface with other government agencies and databases to allow regulators to map the relationships between individuals and entities and individuals and other people.

In addition to the DIN, the Government will consult on implementing a range of other measures to deter and disrupt the core behaviours of phoenix operators, including non-directors such as facilitators and advisers. These include:

- Specific phoenixing offences to better enable regulators to take decisive action against those who engage in this illegal activity.
- The establishment of a dedicated phoenix hotline to provide the public with a single point of contact for reporting illegal phoenix activity.
- The extension of the penalties that apply to those who promote tax avoidance schemes to capture advisers who assist phoenix operators.
- Stronger powers for the ATO to recover a security deposit from suspected phoenix operators, which can be used to cover outstanding tax liabilities, should they arise.
- Making directors personally liable for GST liabilities as part of extended director penalty provisions.
- Prohibiting related entities to the phoenix operator from appointing a liquidator.
- Preventing directors from backdating their resignations to avoid personal liability or from resigning and leaving a company with no directors.

The government will also consult on a range of other measures to deter and disrupt phoenix operators

WHAT ARE THE KEY DRIVERS OF PROFIT?

There are basically four key Drivers of profit.

What that means is that of all the possible strategies, tactics, devices, new technologies and products that you can devise to increase profits, they all fall into one of four following drivers of profitability:-

1. Changes in sales volume,
2. Changes in sales price,
3. Changes in unit costs, and
4. Changes in overheads per unit of sale.

Of course the above are interrelated in that a change in one of the above drivers may affect one of the other drivers. For example, an increase the sales price of the product, may result in a reduction in sales volume.

The trick is to affect change in one of the drivers without adversely affecting any of the other drivers.

For example, you may be able to increase the price of a product without adversely affecting the sales volume by changing the perception of value of the product through differentiation strategies etc.

The objective should be to improve all four of the profit drivers at the same time. What happens then is that you achieve the multiplier effect where even small increases in each driver have an incremental effect and accumulate to become a huge increase in net profit.

Strategies to achieve improvements within each particular profit driver to increase profitability may include:-

Sales volume driver:

- Targeted sales training
- Improved incentive schemes that match performance requirements;
- Improved customer retention due to improvements in delivery and quality.
- Marketing plan introduces new marketing strategies such as cross-selling and up-selling.

Sales price driver:

- Improvements to the estimating system
- Changes to invoicing methods to capture the full value of work done;
- Targeted market research identifying areas of potential price increase;
- Improved positioning to achieve customer perception of product value;
- Improved customer service and delivery times;

Unit cost driver:

- Improved stock control;
- Business process re-engineering to reduce movement, bottlenecks, scrap rates and rework;
- Improved maintenance schedules reducing machine downtime;
- Rescheduling and manning improvements;

- Introduction of KPIs to motivate performance improvements;

Overhead rate driver:

- Business process re-engineering to improve efficiency and information flow;
- Focussed debt recovery to reduce finance charges on sales;
- Space saving;
- Analysis of outsourcing of key services;
- Management training

NEW VACANT RESIDENTIAL LAND TAX

From 1 January 2018, the Vacant Residential Land Tax (VRLT) will be payable on residential properties in Melbourne's inner and middle suburbs which are unoccupied for more than six months in any calendar year (affected municipalities can be viewed on the SRO web site).

The VRLT is an annual tax calculated on 1% of the capital improved value (CIV) of taxable land. *That is an important difference from land tax, which is imposed on the unimproved or site value of the land.* The CIV can be found on the council rates notice for the property. By way of example, a taxpayer who owns vacant property with a CIV of $1.5m will be liable to pay VRLT of $15,000 in 2018.

For our developer clients, it is important to note that a property will be vacant and thus subject to the VRLT if it is not developed and sold within two years of date of issue of the building permit. Once the two year period expires, the property will be subject to the VRLT if it is vacant for more than six months in the calendar year, irrespective of any efforts to advertise that property for rent or sale during that time.

WHAT'S CHANGING IN 2018?

Vacancy fees for foreign acquisitions of residential land:-

An annual vacancy fee imposed on foreign owners of residential real estate if the property is not occupied or genuinely available on the rental market for at least 183 days in a particular 12-month period.

Foreign owners can avoid the fee by living in the property (or have a family member live in the property), leasing the property, or making it available for rent, for a total of 183 days in a 12-month period. Short term letting arrangements often won't be sufficient to avoid the levy.

This fee is in addition to the State based Vacant Residential Land Tax (VRLT)

CGT concession for investments in affordable housing:-

The CGT discount will be increased for individuals who choose to invest in affordable housing. The current 50% discount will increase by 10% to 60% for resident individuals who elect to invest in qualifying affordable housing. Non-residents are not generally eligible for the CGT discount. *This change is not yet legislated.*

Black economy measures: Taxable payments reporting system extended to couriers & cleaners:-

Businesses in the courier and cleaning industries will need to collect information from 1 July 2018, with the first annual report required to be lodged in August 2019.

Single Touch Payroll:-

Single Touch Payroll – the direct reporting of salary and wages, PAYG withholding and superannuation contribution information to the ATO – will be compulsory from 1 July 2018 for employers with 20 or more employees. Under the proposed rules, this system would be extended to all employers by 1 July 2019.

In addition, Single Touch Reporting will extend to the reporting of salary sacrificed amounts

$20k immediate deductions ends:-

The $20,000 immediate deduction threshold for assets purchased by businesses with an aggregated turnover of under $10 million ends 30 June 2018.

Super concessions for downsizers:-

If you are over 65, have held your home for 10 years or more and are looking to sell, you can contribute a lump sum of up to $300,000 per person to superannuation without being restricted by the existing non-concessional contribution caps - $100,000 subject to your total superannuation balance - or age restrictions.

GST on residential property & subdivisions:-

Property developers will no longer manage the GST on sales of newly constructed residential properties or new subdivisions. Instead, the Government will require purchasers to remit the GST directly to the ATO as part of the settlement process. *This change is not yet legislated.*