



# News Bulletin

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Accountants &  
Business Advisors

KAIAS PHILLIPS<sup>129</sup>

Station St. Fairfield, VIC. 3078

Ph. 9489 5888 Fax 9481 0564

[www.kaiasphillips.com.au](http://www.kaiasphillips.com.au)



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## TAX DEVELOPMENTS UPDATE



### How the ATO Identifies Audit Targets

Every year the ATO publishes small business benchmarks that outline what a typical business 'looks like' in different industries. If your business falls outside of those benchmarks, the ATO is likely to take a closer look at why that is.

Some of the Benchmarks the ATO looks at include:-

- cost of sales to turnover (excluding labour)
- total expenses to turnover
- rent to turnover
- labour to turnover

Falling outside of the benchmarks might not necessarily indicate a tax related problem. It might mean for example that your business has a different business model to the norm or is performing poorly relative to others in the industry.

If your business does fall outside of the benchmark however, it is important that you can explain the reason for those differences.

If there is no proof as to why the business is outside of the benchmarks, the ATO is likely to simply apply the benchmark ratio and issue a revised tax assessment.

### ATO Crackdown on Rental Property Deductions



Following a successful enforcement on work-related expense claims which has seen the average claim fall by \$130 over the past two years, the ATO Commissioner Chris

Jordan has signalled the ATO's intent to crackdown

on rental property deductions. Speaking at the Tax Institute's National Convention in Hobart, ATO Commissioner Chris Jordan said the Tax Office's audits of over 300 rental property claims found errors in almost nine out of 10 returns reviewed.

"We're seeing incorrect interest claims for the entire investment loan where it has been refinanced for private purposes, incorrect classification of capital works as repairs and maintenance, and taxpayers not apportioning deductions for holiday homes when they are not genuinely available for rent," said Mr Jordan.

The Commissioner's remarks on the large number of incorrect rental property claims should sound a warning for taxpayers to pay attention to a number of key areas, particularly around loans and repairs.

### 2019 Federal Budget Measures

#### • Increased Funding for the Tax Avoidance Taskforce

From 2019-20 the Government will provide \$1 billion over four years, including \$6.5 million in capital funding, to the Australian Taxation Office (ATO) to extend the operation of the Tax Avoidance Taskforce.

This measure is intended to allow the Taskforce to expand its compliance activities, including increasing its scrutiny of specialist tax advisors and intermediaries that promote tax avoidance schemes and strategies.

The Government has also provided \$42.1 million over four years to the ATO to increase activities to recover unpaid tax and superannuation liabilities.

#### • Black Economy — strengthening the ABN system

Currently, ABN holders are able to retain their ABN regardless whether they are meeting their income tax return lodgement obligation or the obligation to update their ABN details.

In stages, the Government will strengthen the ABN system to disrupt black economy behaviour by requiring ABN holders:

- From 1 July 2021, with an income tax return obligation, to lodge their income tax return
- From 1 July 2022, to confirm the accuracy of their details on the Australian Business Register annually.
- From 1 July 2022, to confirm the accuracy of their details on the Australian Business Register annually.

## TAX DEDUCTIONS TO BE DENIED ON PAYMENTS TO EMPLOYEES AND CONTRACTORS.

From 1 July 2019, payments by businesses to their workers will not be deductible if they haven't complied with the PAYG withholding obligations for that payment.

As from this date, businesses will be denied a deduction for the underlying payment where it:-

- Pays employees and fails to withhold tax from their wages; or
- Pays other suppliers who fail to quote an Australian Business Number (ABN) in relation to the supply, without withholding tax (other than in relation to supplies that are wholly of goods); or
- Withholds the tax as required, but either:
  - fails to report the withholding in the appropriate Business Activity Statement; or
  - fails to lodge the BAS on which the withholding is reported on time.

It is therefore critical that businesses ensure that:-

1. BAS Returns are lodged on time, because a failure to lodge them on time may result in a business permanently losing its tax deduction for wages paid, and
2. they obtain a valid ABN from all suppliers - as failure to do so and not withhold tax in respect to the payment, will be denied a deduction for that payment.

An exemption is available for voluntary notification to the Australian Taxation Office (ATO) of mistakes in relation to compliance with withholding requirements. Therefore, provided the mistake is fixed before the ATO asks about it (e.g. lodge the BAS late, but before the ATO enquiry), a tax deduction will still be available.

## SINGLE TOUCH PAYROLL START DATE FOR SMALL EMPLOYERS

### How does STP work?

STP works by sending tax and super information from your payroll or accounting software to the ATO as you run your payroll. When you start reporting through Single Touch Payroll you will send your employees' payroll and super information to the ATO from your payroll solution each payday.

Briefly, below is the way STP process will operate:

- an employer will run their regular payroll to pay their employees (eg weekly, fortnightly or monthly)
- their employee receives their salary or wages, and their payslip as they did previously

- the employer's payroll software includes mandatory fields to capture the STP data, which includes year-to-date salary or wages and super information
- the STP data is sent to the ATO. The STP file is called a "pay event".
- the ATO receives the STP data and matches the information to the employer and their employees
- the ATO makes STP information available to employees through myGov, to employers through the Business Portal and to tax agents through the Tax Agent Portal. Employees can see their year-to-date tax and super information.

The way STP information is sent will depend on the software you use. STP reporting will be offered in one of the following ways with:

- an end-to-end solution, which allows you to run your payroll and send the STP information directly to the ATO from your software
- a solution which allows you to run your payroll and send the STP information through a third party sending service provider (SSP) which is integrated into your software
- a solution that allows you to run your payroll and requires you to send the STP information through a third party sending service provider (SSP) outside your software.

### Employers with 1-4 employees

For Employers with four or less employees (micro employers) which don't currently use payroll software, can use no cost and low cost STP software to be offered by most accounting software providers.

Also, micro employers will be given the option for its registered tax or BAS agent to report their STP information quarterly, rather than at each payroll run.

This option will be available until 30 June 2021.

### Employers with closely held employees.

There are special concessions for employers with closely held employees. The reason for this is that Employers may not always pay closely held payees a regular salary or wage, and instead, may draw on income from the business throughout the year.

A closely held payee means the payee is directly related to the entity from which they receive payments, for example:

- family members of a family-owned business
- directors or shareholders of a company
- trustees or beneficiaries of a trust.

## Employers with 19 or less employees

Employers with 19 or less employees will be exempt from reporting closely held payees during the 2019/20 financial year.

However, as from 1 July 2020, employers with closely held employees will no longer be exempted from the system. However, such employers will have the option to report on closely held payees on a quarterly basis.

The quarterly report will be based on reasonable estimates made for each quarter of the amounts paid to closely held payees.

These reasonable estimates can be calculated by using one of the following methods:

- actual withdrawals (not including payments of dividends or which reduces the liabilities owed by the business entity to the closely held employee)
- 25% of the salary/director fees from the previous year per quarter
- vary the previous years' amount (to take into account trading conditions) within 15% of the total salary for the current financial year.

If the choice is made to report closely held payees on a quarterly basis, employers will have up to the due date of their income tax return to finalise the information they have reported and make any adjustments.

For further information, or if you require assistance in this matter, please contact Helena Kaias on 9489 5888.

## FRINGE BENEFITS YEAR END ISSUES



With the FBT year once again upon us, many employers will need to prepare FBT returns as at 31 March 2019 and which need to be lodged by 21 May 2019.

The following are some of the more common issues that need to be addressed.

### Has a Benefit Been Provided?

A question that clients often ask is "How do you determine that a Benefit has been provided that is subject to FBT?"

The definition of a benefit under the FBT Act is very broad and encompasses many things other than just your typical benefits such as cars, entertainment, property and expense payment benefits.

Examples of benefits often missed include the payment of an employee's expenses, the use of property off premises, in-house benefits, staff gifts and incentive awards, and provision of a car.

### Motor Vehicles

Just because your business buys a motor vehicle and it is used as a work vehicle, that alone does not mean that the car is exempt from FBT.

If you use the car for private purposes - when you use a car provided by your employer (this includes directors) outside of simply travelling for work related purposes - FBT is likely to apply.

If the work vehicle is garaged at or near your home, even if only for security reasons, it is taken to be available for private use regardless of whether or not you have permission to use the car privately.

### Minor Benefits

Minor benefits are exempt from FBT. However, a benefit will only be a minor benefit if the following conditions are satisfied:-

- The GST inclusive value of the benefit is less than \$300;
- The benefit is provided irregularly and infrequently; and
- In the circumstances, it is unreasonable to treat the benefit as a taxable fringe benefit.

### Otherwise Deductible Rule

The taxable value of an expenses payment Fringe Benefit (employee expenses paid by the employee's employer, e.g. payment of employee care expenses, home electricity etc), may be reduced if a declaration is obtained from the employee declaring the business portion of the expenses prior to the lodgement of the return.

## END OF YEAR TAX PLANNING

As the end of the financial year approaches, businesses should start their tax planning. Too often people undertake tax planning just before the financial year is about to finish or even after it has finished. This is often akin to closing the tax door after the horse has already bolted.

Tax planning is ideally done throughout the year, and certainly some time before the financial year ends.

This process is important because, knowing your potential tax position prior to 30th June means that you can do something about reducing it or ensure that you have a plan to enable the tax to be paid when it is due, without any unpleasant surprises.

*Clients who wish our assistance to undertake end of year tax planning are encouraged to contact us as soon as practicable*

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