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#### ATO compliance program 2011-12: target areas

On 1 July 2011, the ATO released its compliance program for the 2011-12 income year.

Each year, the Commissioner sets out in the compliance program the ATO's views on the most significant tax compliance risk areas for individuals, small to medium enterprises, high net worth individuals, large businesses and the not-for-profit sector.

An overview of the areas that are likely to affect you is set out below for your information.

Notably, these are the ATO's areas of focus only. Falling into one of these areas does not mean you have done anything wrong, or will be required to pay additional taxes.

However, at the ATO's discretion, one or more of the items on your tax return may be queried and you may be required to substantiate one or more claims on your income tax return.

If you receive any documentation from the ATO in relation to a risk review or audit, you should contact your tax adviser to discuss.

This year, the ATO will be focusing on a range of areas in relation to individuals, including the following:

#### *Employees v contractors*

The ATO will be checking to make sure employees and contractors have been correctly classified as such, from an employer as well as service provider/employee perspective. The ATO is of the view that persons inappropriately classified as contractors may be under-reporting income, but may also be missing out on entitlements such as superannuation, leave and workers compensation.

Specific industries being watched by the ATO include:

- Building and construction
- Call centres
- Cleaning
- Security
- Logistics
- Retail
- Tourism and hospitality
- Education
- Aged care
- Health
- Telecommunications.

The ATO is also concentrating on the following industries to make sure employers are fulfilling their superannuation guarantee surcharge obligations:

- Cafes and restaurants
- Real estate
- Carpentry
- Computers system design
- Accommodation
- Accounting.

If you are concerned about your classification or suspect that relevant factors may not have been taken into account when determining your classification with your "employer", you should contact your tax adviser to discuss.

## Personal services income

Income earned primarily through the provision of personal services or exertion is taxed in the hands of that person regardless of the entity that derives the income, pursuant to specific personal services income rules.

The ATO is watching for taxpayers who ignore these rules and report such income in the hands of a company, trust or another person where the personal services rules would apply to tax the income in the hands of the primary service provider.

## Work-related expenses

The ATO continues to focus on claims for work-related expenses (which continue to climb) and will be especially focusing on workers in the following industries in the coming year:

- Real estate employees
- Carpenters and joiners
- Earthmoving plant operators
- Flight attendants.

## Overseas income

The ATO continues to use data-mining techniques to make sure taxpayers are reporting all of their overseas income.

Remember – Australian tax residents are taxed on their worldwide income, ie income derived from all sources. Where tax has been paid in a foreign jurisdiction, you will likely get a rebate or offset so that you may not be required to pay top-up tax in relation to your overseas income, but you still need to report it!

## Pre-filling

It is essential that you double check information that is pre-filled into your tax return. Australians are increasingly reliant on pre-filled information to complete their income tax returns, but the ATO is reminding taxpayers that this information may not be absolutely correct in all instances and should be checked against primary sources prior to lodgment.

## Split loans

Split loans (for example, where one loan is used for two or more purposes, especially where at least one purpose is business-related, and at least one is personal) are again under the

microscope. If you have such a loan, make sure costs in relation to the loan are apportioned correctly. If you are unsure, speak to your tax adviser.

## Refund fraud

The ATO has gone to a lot of effort to build fraud detection tools into their data-checking systems, but it is still important to be wary of potentially fraudulent transactions in relation to your tax file number.

If you receive any correspondence from the ATO that relates, for example, to a return that you haven't lodged, make sure you contact your tax adviser or the ATO as soon as possible.

**Executives, directors and other highly paid individuals** will have their tax affairs watched more closely by the ATO, with a specific focus on:

- Large deductions
- Incorrect calculations of net capital gains or losses
- Deductions for contributions to SMSFs
- Large revenue loss claims
- Appropriate disclosure of partnership or trust income
- Personal services income
- Loans with related entities
- Employee share schemes.

### TIP

Although the ATO is targeting the areas mentioned above, businesses should not think that this means that the ATO will not be looking at other areas too. They will!

## Taxing carbon

The carbon tax has passed the House of Representatives and looks set to pass the Senate later this year. This means that, unless and until the legislation is repealed down the track, the carbon tax is here to stay and will come into effect from 1 July 2012.

For individual taxpayers, the part of this package that will be of most interest will be the accompanying "compensation measures".

The most significant of these changes is the increase in the tax-free threshold from \$6,000 (currently) to \$18,200 in 2012-13, with a consequent increase in some marginal tax rates.

The low income tax offset (LITO) will be reduced from \$1,500 to \$445, with the benefit being reflected in the new tax-free threshold.

This means that, when the threshold is combined with the LITO, each taxpayer will not need to start paying tax until their income exceeds \$20,542.

In the 2015-16 year, the government has announced that the tax-free threshold will again be increased to \$19,400, with a further increase in one marginal tax rate. The LITO will be reduced to \$300. The effective tax-free threshold applying to individuals will rise to \$20,979.

The table below shows the current and proposed marginal tax rates and thresholds as part of the carbon tax package:

	Current		2012-13		2015-16	
	Threshold (\$)	Marginal Rate	Threshold (\$)	Marginal Rate	Threshold (\$)	Marginal Rate
<b>1st rate</b>	6,001	15%	18,201	19%	19,401	19%
<b>2nd rate</b>	37,001	30%	37,001	32.50%	37,001	33%
<b>3rd rate</b>	80,001	37%	80,001	37%	80,001	37%
<b>4th rate</b>	180,001	45%	180,001	45%	180,001	45%
LITO	Current		2012-13		2015-16	
	Up to \$1,500	4% withdrawal rate on income over \$30,000	Up to \$445	1.5% withdrawal rate on income over \$37,000	Up to \$300	1% withdrawal rate on income over \$37,000
<b>Effective tax-free threshold*</b>	16,000		20,542		20,979	

\* Includes the effect of the tax-free threshold and the LITO.

Separately, the Treasurer also announced following the Tax Forum in October 2011 that the government will, when the Budget is in a sufficiently strong position, “increase the tax-free threshold further, to at least \$21,000, and remove the low income tax offset entirely”.

There is no detail yet on the timing of any such change. However, we will bring you further news as soon as such detail is available.

In addition to the above, the government will also be increasing family payments, pensions, benefits and allowances.

If you are unsure of how the carbon tax compensation package will affect your circumstances, you should seek advice from your tax advisor.

## TO DO

You should speak to your tax adviser about what preparation you may need to undertake before the carbon tax and related tax changes are implemented on 1 July 2012.

## The standard deduction is coming to a tax return near you

For most of us, tax time is a difficult and frustrating experience of collecting receipts, answering reams of questions from our tax agent, and poring over the details of the tax return once prepared – all while we look after all of our other responsibilities.

From the year beginning 1 July 2012, that experience may get a little easier with the government’s release of exposure draft legislation to introduce a standard deduction for work expenses of \$500 in the 2012-13 income year, which will increase to \$1,000 in the 2013-14 income year.

This standard deduction will be available to all individual taxpayers in lieu of deductions for work-related expenses (such as uniforms, business and mobile telephone costs, and subscriptions) and the cost of managing your tax affairs.

Of course, you will still be able to claim a higher deduction if you can substantiate the higher amount. For many taxpayers who are not sure of how much they are entitled to deduct, this will mean needing to tally up the deductions to which you are entitled to determine if the standard deduction is worthwhile.

However, some taxpayers whose deductions are below the threshold will benefit significantly from a reduction in the administrative burden of filing their income tax return.

## NOTE

The standard deduction will be available to all individual taxpayers from the 2012-13 year onwards. You should consult your tax adviser to determine if the standard deduction will be a worthwhile option for you.

## 50% discount for interest income

As part of the suite of tax reforms announced after the report of the Henry Review was released, the government announced it would provide a discount of 50% on the net interest income earned by individuals (including via a trust or partnership).

This reform has moved one step closer with Treasury's release of a discussion paper to progress the reform and iron out implementation issues.

The discount will apply to the first \$500 of net interest income earned in the 2012-13 income year, and then go up to the first \$1,000 of interest income earned in each year thereafter.

These amendments were intended to level the playing field between different investment choices for individuals and to make savings a more attractive investment choice than is currently the case (from a tax perspective).

While the amounts may not be large, they may influence how much you leave in the bank as of 1 July 2012, so you should talk to your tax or financial adviser to consider your options.

The discount will apply to interest received from deposits held with any bank, building society or credit union, as well as interest on bonds, debentures and annuity products.

### NOTE

If you have or intend to maintain savings and derive interest income, from 1 July 2012 you will be able to apply a 50% discount to the first \$500 of interest income earned that year. This amount will go up to \$1,000 in the following year.

This may affect your investment decisions, so you should consult your tax or financial adviser to plan appropriately for these changes.

## My super

Recently, the government announced its intention to create (as part of broader superannuation reforms) a new simple, low-cost default superannuation product called "MySuper".

Further proposed detail of these reforms has now been released, including proposed changes to superannuation guarantee requirements, the application process for MySuper, the MySuper authorisation process, the characteristics of a MySuper product, and the permitted fees and charging rules associated within a MySuper product.

If you think such a product may benefit you, you should speak to your financial adviser about the potential benefits and implications.

### NOTE

The government is soon to create a new, low-cost default super product called "My super". If you think this may assist you, you should consult your financial adviser.

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