

BENEATH THE SURFACE

TAX OFFICE AUDITS

It is with some regret that we have to bring to your attention that each year, the tax office is allocated more and more money by government, for tax auditors and audit functions. The tax office use a variety of methods to identify risk clients, eg field visits where they sit in your business and simply observe comings and goings for a time, data-matching between BAS's and income tax returns, data-matching with banks to pick up interest income, referring to industry ratios, etc. Part of our professional service to you is to continue to protect you and your business in the likely event of audit.

This means that you may feel annoyed with us as we become even more pedantic about asking questions, seeking copies of supporting documents, insisting on annual GST reviews, completing fringe benefits tax returns, etc, etc.

A colleague who currently has a high proportion of his clients under audit from the tax office, said that prior to audit his clients complained regularly about his insistence on records, declarations, fringe benefits tax returns, etc. However, these same clients' attitudes changed completely during their audits, and even became one of deep gratitude that he had been so finicky about dotting the "i's" and crossing the "t's" when preparing their work.

Some areas for you to watch include, but are not limited to:

- **Fringe benefits:** Do you have staff? Do you run your business through a company or trust? If yes, to either, you will probably have fringe benefits obligations.
- **Superannuation guarantee contributions:** Are you paying 9% compulsory superannuation contributions on behalf of eligible staff? Are you paying it into the funds by 28th July, October, January, and April each quarter? If you are late then the monies need to be paid direct to the tax office, with penalties, and none of the amounts are tax deductible.
- **GST Paid:** Do you have a great filing system for all your tax invoices? Tax auditors are finding a high incidence

of non-compliance simply because GST refunds have been claimed but there are no invoices on file. No invoice, no entitlement to a refund. (GST credits for items up to \$55 GST-inclusive can be claimed without a tax invoice, provided they are not part of a set).

- **ABN and GST:** We continue to find clients who claim one-eleventh of all expenses whether they are GST-free or not, and whether the supplier is registered for GST or not. Check. Go to website: abr.business.gov.au,

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MYOB & QUICKBOOKS UPDATE

Remember that tax rates will change on 1 July 2004, so ensure that you are using the latest software with new rates. Refer to our previous budget snapshot newsletter, or request a copy, for a list of these changes.

SUPER CO-CONTRIBUTION

If you earn under \$27,000 and make a contribution to superannuation from after-tax dollars prior to 30 June 2004, then the government will match that amount dollar for dollar up to a maximum of \$1,000. There is a shading-out range from \$27,001 to \$40,000.

This offer is not available to any taxpayer who is eligible to claim a tax deduction for their superannuation contributions, eg money contributed on your behalf by your employer, and small business owners.

IS THAT CONTRACTOR REALLY AN EMPLOYEE?

Be wary. If deemed an employee, then your business is responsible for withholding tax from payments, and also for compulsory super contributions. If the contractor basically supplies labour only and you provide all the tools and determine hours, and maintain control of the project, and bear all commercial risk, then the contractor is likely to be an "employee".

If unsure, we recommend that you seek the professional advice of an industrial law specialist. We can provide several referrals if required.

select the public register, and punch in the ABN to confirm GST registration status.

- **Self-managed super funds:** see separate newsletter, or phone to request a copy.
- **Work-related expenses:** Auditors are finding that work expense claims continue to rise at faster rates than ordinary prices. Ensure that you keep thorough records for all work-related expenses claims.
- **GST and Sale of business assets:** GST basically applies to asset sales on or after 1 July 2000, irrespective of when the asset was purchased. Have you correctly charged GST on trade-in/sale of assets used fully or partially for business purposes, eg motor vehicles, computers, pumps, filing cabinets, etc?
- **Bartering:** If you barter your services, you are still liable for income tax and GST on these transactions.
- **Record-keeping:** do you have an easy-to-locate filing system of all invoices/receipts for income and expense items per financial year to support the claims made in your various taxation returns? They need to be kept for a minimum of five years from the **date of assessment**. For example, if you lodge the 2002-03 tax return in May 2004,

then the records for that financial year need to be kept until May 2009.

- **Capital Gains Records:** We continually find clients who have tossed these documents and it is then a very costly exercise for them, via us at time of sale, to resurrect evidence of purchase details.

These records need to be kept until you sell the asset plus the five year rule explained in the above item.

Remember that it is the date of **contract** that is the important date for capital gains tax calculations, and not the date of settlement.

- **Cash Economy:** It is best practice to bank all business income, including cash. If not, do you have a systematic procedure in place to readily determine your total income, including cash, for the year?
- **GST-free Sale of Going Concern:** One of the basic conditions required in order to be eligible for this exemption is that both the purchaser and seller **agree in writing** that the GST-free sale of going concern applies and that both want to claim the exemption. There are other more complex requirements to be met, yet regularly business vendors overlook this basic condition.

HOLIDAYS

Our office will be closed for holidays from 1 – 11 July 2004 inclusive and from 20 – 28 November 2004 inclusive.

POSITIVE CASH FLOW STORY

Remember Stella from our Summer 2003/04 newsletter? Within three years, she was able to extinguish a \$20,000 loan and pay \$20,000 cash into super-annuation, by making small and regular changes to her cash flow management style.

Since that time, she has continued to excel at money management – becoming more independent of us as the time goes by. This year (2003-04), she:

- will contribute \$42,000 to super-annuation
- has reduced her working hours and thus sales, by having most of each Friday as leisure time – a conscious decision, and
- her profit went up due to her diligent supervision of expenses.

What a star performer. If you wish to

improve your cash flow position, please call our office now to make an appointment.

NOTICE TO EMPLOYERS

Continually, I see hard-working employers ever-willing to offer bonuses and shares to employees in a bid to engender employee loyalty, and also as an expression of their generosity. Yet, time and again this offer is made prematurely, ie not only are the employers themselves earning below market value salaries, they usually are not receiving an adequate return on their investment.

As an alternative to bonuses, and shares, a recent Hays

Personnel Services survey, found that employees look to employers for:

- flexibility in working hours
- study assistance
- an acknowledgment of their individual needs
- work/life balance issues

Be smart, you market your services to clients, it seems it is time for all of us to consciously market our business to employees in order to attract the best.

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Please Note: Many of the comments in this publication are general in nature.

Anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the applicability of the information to their particular circumstances.