

Practice Update

Please read this update
and contact this office
if you have any queries

APRIL 2006

End of the FBT Year

Now that 31 March has passed, 2005/06 FBT returns will soon be due for lodgment.

Where we usually prepare the FBT return for your business, we ask that you collect all relevant FBT records relating to the benefits provided, such as:

- ◆ motor vehicles;
- ◆ car parking;
- ◆ entertainment;
- ◆ expense payments; and
- ◆ living away from home allowances;

together with travel diaries, employee declarations, etc.

Editor: Please call if you need to make an appointment or discuss the records needed.

GIC for June 2006 quarter

The general interest charge (GIC) for April to June 2006 is 12.61%, down from 12.63% for the March 2006 quarter.

Tax and far north Queensland cyclone

Tax Commissioner Michael D'Ascenzo has assured those affected by the far north Queensland cyclone that they have no need to worry about their tax matters right now.

If taxpayers in the cyclone affected area are experiencing any difficulties meeting tax obligations they can call the Tax Office on 13 11 42 (option 3) during business hours.

Cash economy is at least \$13.4bn and (probably) rising

The Auditor-General has released his report into the ATO and its handling of the cash economy.

According to the ATO, the major tax risk arising from the cash economy is business income not being reported, however, it does not attempt to estimate the size of the 'cash economy tax gap'.

Editor: With all due respect, why would they want to? It just puts the spotlight on them.

The Auditor-General acknowledges that, since the cash economy is 'hidden' activity, it is difficult to quantify with any precision.

At the lower end of the range of estimates, in 2003 the Australian Bureau of Statistics estimated that the cash economy was approximately \$13.4 billion in 2000/01 (Treasury supported this figure).

Comparison study of taxation system announced

The Treasurer has asked Mr Richard (Dick) Warburton and Mr Peter Hendy to lead a study examining how Australia's tax system compares with other developed economies. This will involve a comparison of overall taxation levels and rates

and coverage of the indirect tax, income tax and company tax systems.

The aim of the study is to provide a public document that compares Australian taxes to those in other countries. This will identify those areas where Australia leads comparable countries and those areas where it lags. It will enable a focus on the most important areas.

The study will cover taxes collected at national, state and local government levels. Personal, business, indirect, property, transaction and superannuation taxes will be included.

The report is due 3 April 2006, theoretically in time to help prepare the May Budget.

New report profiling SMSFs

Self managed superannuation funds (SMSFs) are a popular retirement savings option for business people and other clients with the time and skills to 'do-it-themselves'.

The Investment and Financial Services Association has released a report into the use of SMSFs.

Among other results, the report found that:

- the average starting balance for SMSFs established in the last two years was \$300,000;
- 55% of investors cited 'control' as a reason for establishing an SMSF;
- shares and property were the dominant asset classes for SMSFs, with 89% of SMSFs holding shares and 60% holding property; and
- 58% of SMSFs have managed funds as part of their asset mix and investment in managed funds averaged \$120,000.

Editor: Clients who want to discuss superannuation options should contact our office.

FBT: Exempt Benefits – portable computer

The FBT Act exempts notebook computers, laptop computers or *similar* portable computers from fringe benefits tax. However, a question has arisen as to whether other computers, that are portable but must still be connected to mains electricity, are eligible for the exemption from FBT.

The particular computer that is being marketed to businesses is lighter than an average desktop computer but much heavier than a notebook or laptop computer, comes in three separate units, has no battery and uses mains electricity.

The ATO has decided that these are noticeably different to notebook or laptop computers and therefore are not exempt from FBT.

Such a computer, whilst being portable in the sense that it can be moved from one office to another, cannot be operated in a mobile environment, for example whilst travelling on a plane.

The primary characteristics of notebook and laptop computers are that they:

- ◆ are easily portable and designed primarily for use away from an office environment;
- ◆ are smaller and lighter than even the most compact desktop computer;
- ◆ can operate without an external power supply; and
- ◆ are designed as one complete unit.

Proposed amendment to the GST law for real property

The Government has decided to amend the GST law in light of the decision of the Full Federal Court in the *Marana Holdings* case (*Marana Holdings Pty Ltd v FCT* [2004] FCAFC 307).

Editor: In the Marana Holdings case, the court held that sales of motel units that had been converted into residential units were sales of "new residential premises" and therefore not input taxed.

According to the Minister, the decision in that case has resulted in a blurring of the lines between properties that are subject to GST and those qualifying for input taxed treatment.

The Government will amend the GST law to continue the tax treatment of property that existed prior to the Court's decision.

It considers it appropriate that supplies involving properties such as serviced apartments and strata units leased to hotel operators remain input taxed, which will avoid the need for many small investors to register for the GST.

The amendments apply from 1 July 2000.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.