

Practice Update

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

JANUARY/FEBRUARY 2006

Tax and recent bushfires

The Tax Office has moved to reassure bushfire victims throughout Australia that they do not have to worry about their tax matters right now.

"We know this is a very difficult time for many families, especially victims of the most recent bushfires in NSW and Victoria," the Commissioner said.

"We realise they have other priorities to sort out now and it may be some time before they are able to focus on their tax matters."

If taxpayers in bushfire affected areas are experiencing any difficulties meeting tax obligations they can call the Tax Office on 13 11 42 during business hours.

The Tax Office can help by:

- ◆ fast tracking refunds for people impacted by the fires;
- ◆ providing extra time to pay debts – without interest charges;
- ◆ allowing more time to meet activity statement and other lodgment obligations;
- ◆ helping reconstruct their tax records where their documents have been destroyed; and
- ◆ offering personal visits from field officers to help reconcile lost records.

September quarter CPI

The CPI for the September 2005 quarter was 149.8 (up from 148.4 for the June 2005 quarter).

ATO's data matching program now moves to motor vehicle dealers

The ATO has advised that it will compulsorily acquire names, addresses and telephone numbers from Pickles Auctions Pty Ltd, Fowles Auction Group Pty Ltd and Auto Auction Group Pty Ltd.

Details obtained will be cross matched with the ATO's data bank to identify those individuals who are not lodging returns or paying their tax.

Records relating to approximately 5,000 individuals and entities that purchased or sold vehicles through these auction houses will be matched.

FBT: Exempt accessories for laptops and notebooks

Editor: Many clients would be aware that there is an exemption for FBT purposes for laptops and notebooks provided to employees.

The ATO has now expanded on what kind of accessories may be covered by the exemption.

The following benefits are exempt from FBT:

- ◆ From 1 April 2006, personal digital assistants and portable printers designed for use with a laptop or notebook.
- ◆ Built-in internals such as modem and fax cards.
- ◆ Pre-loaded software forming part of the portable computer package.
- ◆ Separate or subsequent software purchased and used in the employee's employment.

- ◆ Items that are 'bundled' by the retailer as part of a special offer (reflected in a single invoice) such as upgraded memory, an extended warranty or a protective carry bag.

Editor: Clients who need assistance or full details of exempt and non-exempt items, or the minor benefit exemption should contact our office.

Warning on prepaid service warrant arrangements

Editor: The ATO has issued a Taxpayer Alert in relation to an arrangement where, for a relatively small cash outlay, large losses are created by a taxpayer or their partnership by acquiring prepaid service "warrants" that may be redeemed for the provision of legal and other professional services.

A "warrant" is something akin to a right or pledge whereby the payment entitles the holder to be able to redeem the services contracted for.

For example, a warrant offering legal services to the value of \$50,000 can be purchased by paying just \$7,500, with the remaining balance owing to the service provider.

The Tax Office has warned taxpayers to be wary of arrangements that "claim to produce a tax deduction greater than the small amount paid for the warrant in the financial year they are acquired."

Barter exchange schemes under investigation

The Tax Office has warned barter trade exchanges and their members that schemes designed to increase GST refunds are under investigation.

It is concerned with arrangements under which a barter trade exchange member buys goods or services at grossly inflated prices using trade dollars.

"We are concerned the amount paid in trade dollars for the good or service is much higher than the price that would normally be paid in dollars on the open market".

For example, the barter exchange may buy advertising space from a member for 5,500 trade dollars when the market value is actually \$550. In this case the price in trade dollars is inflated ten times its real market value.

"People use these inflated prices to make GST credit claims – this converts trade dollars into real dollars in the form of GST refunds.

"Where we see artificially inflated prices, and the arrangements are clearly a sham to increase GST refunds – criminal charges may be appropriate".

Results & direction of the ATO's "low doc" loans project

The Tax Office has begun to investigate whether people using "low doc" (or low documentation) loans are likely to have tax compliance issues.

Of around 350 taxpayers selected for review, it was found that about 50% had not lodged returns – the average was three years outstanding.

Tax Office checks for concealment of income have raised over \$23 million in tax and penalties.

What's next?

In the coming year, the Tax Office will:

- ◆ Check the lodgment status of people obtaining finance through low doc loans.
 - ◆ Because most low doc loans are subject to mortgage insurance, it will explore matching insurance company records with tax returns.
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Husband and wife partnerships get "the nod" from the ATO

The ATO has finally come out and stated that its anti-avoidance legislation would not apply to a typical husband and wife partnership where there are no unusual features.

Under such an arrangement, a husband and wife conduct a business in partnership and share equally in profits and losses, notwithstanding that only one party performs the bulk of the work.

This arrangement divides income equally even though only one of the partners is the main generator of the income of the partnership.

However, the arrangement also has the very real financial consequence of exposing each partner to full liability for the debts of the partnership.

The ATO accepts that the arrangement is a partnership in form and in substance and it is a way of the husband and wife conducting business over the longer term.

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.