

Practice Update

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

JUNE 2006

CPI for March quarter 2006

The CPI indexation factor for the March quarter 2006 was 151.9 (up from 150.6 for the December 2005 quarter).

FBT car parking threshold

The car parking threshold for the fringe benefits tax (FBT) year commencing on 1 April 2006 is \$6.62 (up from the amount of \$6.43 that applied in the previous FBT year).

Taxi earning rate for 2005

Editor: The Tax Office is moving more and more to calculating averages and applying them to certain businesses to determine what their income, gross profit and expenses should be. One of those is the average earning rate for taxis based on the number of kilometres they travel. Unfortunately, this will be an ongoing trend for other businesses.

The Tax Office has announced that the national taxi earning rate for the year ended 30 June 2005 will remain at \$1.01 per km.

A spokesman for the ATO said that "The figure is based on average taxi earnings around the country and is seen by the Tax Office as the most reliable guide to what operators can expect to earn each year.

"Drivers and operators with an earning rate which is less than the national average should review their records to ensure all income has been included."

Individual tax returns here to stay

Editor: Clients concerned about being able to continue to claim deductions and receive healthy refunds often ask if salary and wage returns are likely to be abolished. This report of a radio interview with the Prime Minister will be a welcome relief to many.

In an interview on 19 April with Alan Jones on Radio 2GB, the PM threw his weight behind keeping individual tax returns.

In that interview the Prime Minister stated that:

"I . . . made some inquiries about this issue of not having tax returns and I have been informed that there was quite a lot of research carried out on this and it indicated that a surprisingly large number of people like the idea of putting in their own returns.

"People like getting a cheque from the Government. They like that cheque, that Reserve Bank cheque made out in their favour giving them a tax refund and a lot of people I talk to say, 'I get my tax return done by a tax agent, it doesn't cost an enormous amount and he makes sure that I get all of the deductions that I am entitled to and if I didn't have it done by him then I wouldn't get as much back.'"

Luxury car data matching project

The Tax Office has decided to request details of individuals or entities who have acquired a motor vehicle valued at \$70,000 or higher from each of the relevant State/Territory authorities.

These will be electronically matched with certain sections of Tax Office data holdings to identify non compliance with taxation law. Records relating to approximately 600, 000 persons or entities will be matched.

Tax Office warns about individuals offering advice

The ATO has warned people in the Townsville* area to beware of individuals offering investment or retirement income advice who claim they are working on behalf of the Tax Office. It said it doesn't employ third parties to provide advice to taxpayers.

These individuals may be approaching people to offer advice for home owners about investing in their retirement and saving on income tax if people invest in their company.

The ATO says that a legitimate tax officer will provide identification and give their own and their manager's contact details.

Editor(): Any client who receives a call from someone claiming to be from the Tax Office, and who is concerned about questions being asked, should ask for the person's name, what office they are from and that office's phone number. If still concerned call us or call the ATO on 13 28 61.*

ATO "comfortable" with genuine service trust arrangements

The ATO has released its long-awaited ruling on Service Trusts. It is allowing a period of 12 months for people to review their service arrangements, ending on 30 April 2007. *Editor: Speak to us if you want to discuss the ruling.*

If, at the end of this period, a taxpayer's service arrangement is generally inline with the information provided in the ruling, the ATO states there is little risk that it will audit the arrangements.

What will the Tax Office accept?

The Tax Office advises that it will accept conventional service arrangements where payments are correctly calculated and the services are reasonably connected to the conduct of the business.

Where this is the case, the presumption will be that the service fees and charges are a real and genuine cost of the business and deductible in full.

What will the Tax Office question?

If the payments are grossly excessive or the services are not reasonably connected to the conduct of the business, then the purpose, and the deductibility, of some or all of the service fees is open to question.

ATO warns about year end schemes

The ATO has advised taxpayers not to get caught up in dodgy, end-of-year tax schemes.

"At the end of the financial year people often try to reduce their tax bill through investments that promise large refunds, but it can be hard to tell a good investment from a bad one as they can all come with convincing sales pitches. "

The ATO says if you hear sales pitches similar to these, beware...

- ◆ There's no risk - we guarantee the returns'.
- ◆ The investment is legal but the tax man doesn't like it - that's why it's done offshore'.
- ◆ There's no need to ask the Tax Office if it's okay - we already have a ruling'.
- ◆ 'A top lawyer has looked at the investment and they think it's great' - In many cases the 'top lawyer' may have seen a different investment to the one you are being sold.

Investigate before you invest

- Is this a licensed business?
 - Is there a product disclosure statement or a prospectus?
 - Did you get an independent second opinion? *Editor: Have you spoken to us?*
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Salary sacrificing opportunity!

The FBT rate has been reduced to 46. 5% from 1 April 2006, even though the reduction in the top marginal rate, from 48. 5% to 46. 5%, will not occur until 1 July 2006.

This means that there is a (limited - i. e., 2%) salary sacrificing opportunity for taxpayers on the top rate between April and June 2006.

As any fringe benefits will only be taxed at 46. 5% from 1 April 2006, taxpayers can effectively "bring forward" the tax rate reduction by salary sacrificing fringe benefits.

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.