

STS TAX TALK

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We hope you find the latest copy of our newsletter as informative as our others and a valuable tool in your wealth creation!

ATO INDIVIDUAL AUDIT HOT SPOTS FOR 2010

International Dealings

As many of you may be aware, the ATO have been and will be further targeting Foreign Source Income.

The ATO have implemented an initiative called an Offshore Voluntary Disclosure Initiative (OVDI) that will allow a taxpayer to make a voluntary disclosure to the ATO **up until 30 June 2010**

They will be increasing their information matching activities in order to identify individuals who may not be reporting foreign sourced income (e.g., bank interest, dividends, pensions, capital gains, rental income, salary and wages).

In particular they will be identifying individuals who may have failed to disclose foreign source income, by matching information supplied by overseas revenue agencies and AUSTRAC against what has been reported (if any) as foreign source income in a taxpayer's individual tax return.

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ATO individual audit hot spots for 2010 continued.

Remuneration of executives and directors

The ATO will be working towards identifying high income individuals (executives and directors, especially private company resident executives and directors of foreign companies) who appear to have under reported their income, particularly in relation to employee share/options or cash/profit bonuses which have been received as part of an overall remuneration package.

Claiming losses on share disposals – Traders vs Investor

The ATO is concerned that there will be an increasing number of individuals claiming losses on the sale of investments over the past 18 months. In particular, the ATO is concerned that many individuals will attempt to classify themselves as share traders rather than share investors so that losses on the disposal of shares can be treated as being on revenue account rather than on capital account and claimed as a tax deduction.

Rental properties – dealing with purchase-related costs

The ATO will continue to take active compliance role in the 2010 year in identifying the under reporting of rental income and over-claiming of rental deductions, in particular costs relating to the purchase of a rental property which are capital costs and not tax deductible.

The purchase costs that they are concerned about are:

- Allocating the correct purchase price
- Borrowing costs
- Deposit bond/bank guarantee fees
- Property buyers advocate fees
- Travel and accommodation costs
- Building/pest inspection report
- Financial planning or investment fees

Non-Commercial loss rules “tighten up” for high income earners from 1 July 2009

From 1 July 2009, individuals (sole traders and partners) with a tax loss from a business activity for an income year will generally be required to quarantine their loss if their adjusted taxable income for the year is \$250,000. That is the loss cannot be offset against any other income in the same year.

Tax return THRESHOLDS FOR 2010

Tax rates 2009-10

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$6,000	Nil
\$6,001 – \$35,000	15c for each \$1 over \$6,000
\$35,001 – \$80,000	\$4,350 plus 30c for each \$1 over \$34,000
\$80,001 – \$180,000	\$17,850 plus 38c for each \$1 over \$80,000
\$180,001 and over	\$55,850 plus 45c for each \$1 over \$180,000

Tax rates 2010-11

<i>Taxable income</i>	<i>Tax on this income</i>
\$0 – \$6,000	Nil
\$6,001 – \$37,000	15c for each \$1 over \$6,000
\$37,001 – \$80,000	\$4650 plus 30c for each \$1 over \$37,000
\$80,001 – \$180,000	\$17,550 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,550 plus 45c for each \$1 over \$180,000

Cents per Kilometre – No change

up to 1600cc	\$0.63c
1600cc to 2600cc	\$0.74c
More than 2600cc	\$0.75c

Home Office Expense Rate – No change \$0.26 per hour

Tax return THRESHOLDS FOR 2010 continued.

Income Thresholds for Family Tax Benefit - A

- **For maximum rate:** Family income can be \$44,165 a year before payment is affected.
- **For part rate:** If your income is more than \$44,165 a year, payments will reduce by 20 cents for each dollar above \$44,165 until the base rate is reached. It is paid at this level until family income reaches \$94,316 a year (plus an additional \$3,796 for each dependent child after the first). Payments will then reduce by 30 cents for every dollar over that amount until the payment reaches nil.

To receive **some** Family Tax Benefit Part A, the maximum income levels are:

- \$104,390 a year for a family with one dependent child under 18; and
- \$127,519 a year for a family with one dependent 18-24 year old.

Income Thresholds for Family Tax Benefit - B

Two parent families with one main income

The parent earning the higher amount can earn \$150,000 or less for that financial year. If the primary earner's income is under that limit, an income test is then applied to the parent earning the lower amount. The parent earning the lower amount can earn up to \$4,672 for the financial year before it reduces the rate of Family Tax Benefit Part B payable.

Please Note: Family Tax Benefit Part B is not payable to families if the primary earner's income is more than \$150,000.

Single parent families

- If you are a single parent, you can get the maximum rate of Family Tax Benefit Part B provided your income is \$150,000 per year or less.

Please Note: If you share the care of your child, there are special rules about how much Family Tax Benefit Part B you can be paid. Family Tax Benefit Part B is not payable to single parents if the primary earner's income is more than \$150,000.

Tax return THRESHOLDS FOR 2010 continued.

Super co-contribution thresholds – Individuals and self employed

The maximum co-contribution amount that you can receive (\$1,000) is reduced by 5 cents for each \$1 of your total income over \$31,920. The co-contribution phases out completely where your total income is \$61,920 or more.

Provided you are entitled to receive the co-contribution, the minimum amount payable is \$20.

The formula for calculating the maximum co-contribution amount is:

$$\$1,000 - \{[(\text{assessable income} + \text{reportable fringe benefits}) - \$31,920] \times 0.05\}$$

The co-contribution payable is the lesser of:

- the maximum co-contribution amount, or
- the amount of personal super contributions x 1.

The co-contribution:

- must be preserved in the fund (it can only be accessed when other preserved amounts can be accessed),
- is not included as income in your tax return,
- will not be subject to any taxation when paid to the fund, and
- will not be taxed when received as a benefit.
- are under 71 years old at the end of the financial year;
- have to be an Australian resident;
- lodged an income tax return for the financial year;
- have not held an eligible temporary resident visa at any time during the financial year;
- earned at least 10% of your total income from running a business or from an employer or a combination of both.

Tax return THRESHOLDS FOR 2010 continued.

The Medicare Levy Surcharge

The Medicare Levy Surcharge is a Levy, or an extra tax, on Australian taxpayers who do not have private hospital cover and who earn above \$73,000 for individuals and \$146,000 for families, increasing by \$1,500 for each child.

The surcharge is calculated at the rate of 1% of taxable income. It is in addition to the Medicare Levy of 1.5%. The Medicare levy surcharge is imposed on individuals earning over the threshold who do not have an appropriate level of hospital insurance.

In 2009-10 the thresholds are:

- a single person with an annual taxable income greater than **\$73,000**, or
- a family or couple with a combined taxable income greater than **\$146,000**. The family income threshold increases by \$1,500 for each dependant child after the first.

Low Income Tax Offset

For the 2009-10 year, the maximum amount of the tax offset is \$1,350 and the cut out threshold is \$63,750. The amount of the low income tax offset for which an individual qualifies is reduced by 4c for every \$1 their taxable income exceeds \$30,000.

Taxable Income that can be earned before paying tax.

The increase in the low income tax offset will see individuals able to earn more before paying tax. For the 2009-10 year, individuals can earn up to \$15,000 before paying tax.

Minors unearned income

From 1 July 2009, minors can earn up to \$3,000 before paying tax.

Baby Bonus Tax Offset

The 2009 year was the last year that the baby bonus can be claimed.

Tax return THRESHOLDS FOR 2010 continued.

Dependant Tax Offset

For the 2010 income year, an individual taxpayer will **NOT** be entitled to claim the Dependant Tax Offset if the taxpayers taxable income is more than **\$150,000**.

The maximum spouse tax offset you may be able to claim is \$1,583.

The maximum tax offset is reduced by \$1 for every \$4 by which the dependants separate net income exceeds \$282.

Once a dependant's separate net income reaches \$8,918, the maximum tax offset amount is reduced to nil. Therefore, no dependant tax offset can be claimed.

Education Expenses Tax Offset

The Education Tax Refund (ETR) is a new government initiative to help with the cost of educating primary and secondary school children. It means eligible parents, careers, legal guardians and independent students could get 50% back on some education expenses.

Eligible families will be able to claim a 50 per cent refund every year for eligible education expenses up to:

- \$780 for each child undertaking primary studies (maximum refundable tax offset of \$390 per child, per year); and
- \$1,558 for each child undertaking secondary studies (maximum refundable tax offset of \$779 per child, per year).

You can claim the Education Tax Refund (ETR) if you had eligible education expenses during the financial year for a child who meets the schooling requirement, **and**:

- you received Family Tax Benefit (FTB) Part A for the child **or**
- a payment was made for the child which prevented you from receiving FTB Part A, **or**
- your child stopped full-time school during the year and received income over the cut-out amount which prevented you from receiving FTB Part A for the child.

Tax return THRESHOLDS FOR 2010 continued.

Education Expenses Tax Offset Continued.

Payments that prevent you from receiving [FTB Part A](#), but which still entitle you to receive the ETR include:

- Youth Allowance
- Disability Support Pension
- ABSTUDY Living Allowance
- the Veterans' Children Education Scheme
- Student Financial Supplement Scheme, and
- the scheme to provide education and training under s258 of the *Military Rehabilitation and Compensation Act 2004*.

Eligible education expenses

Eligible expenses include the cost of buying, establishing, repairing and maintaining any of the following items:

- laptop computers and home computers
- computer-related equipment such as printers, USB flash drives, as well as disability aids to assist in the use of computer equipment for students with special needs
- computer repairs
- home internet connections
- computer software for educational use
- school textbooks and other printed learning material, including prescribed textbooks, associated learning materials, study guides and stationery, and
- prescribed trade tools for secondary school trade courses.

Tax return THRESHOLDS FOR 2010 continued.

Education Expenses Tax Offset Continued.

What is the schooling requirement?

For the purposes of the ETR, in order to meet the schooling requirement a child or independent student must be:

- registered or enrolled in a primary or secondary school course provided at an educational institution such as a school or TAFE (secondary school study only) or
- registered or enrolled with the education authority of their state or territory as a home schooled student, or
- registered or enrolled in a course of study or instruction which the Minister administering the Student Assistance Act 1973 determines that the ETR applies for.

They also must have attended the course of study or instruction, or received home schooling for at least one day in a six-month period, commencing from 1 July or 1 January.

Even if a child only meets the schooling requirement for part of the year you can still claim for that period. This also applies to independent students.

You can claim the ETR even if you are not required to lodge a tax return.

Entrepreneurs Tax Offset

From 1 July 2009 a proposed new income test (for single taxpayers and families) will apply for the purposes of determining an individuals eligibility to claim the Entrepreneurs Tax Offset.

The proposed new income thresholds are \$70,000 for single taxpayers and \$120,000 for families.

Tax return THRESHOLDS FOR 2010 continued.

Non-Commercial Loss Rules

From 1 July 2009, individuals (sole traders and partners) with a business loss will generally be required to quarantine their loss if the adjusted taxable income for the year is \$250,000 or more.

Total Net Investment Loss

As per the Australian Taxation Office

When do you make a total net investment loss?

You make a total net investment loss when the amount of allowable deductions you claim for your financial investments and rental properties is more than the gross income you receive from those investments. For example, you have a total net investment loss when the amount of interest you can claim as a deduction on a loan you take out to buy a rental property is more than the income you receive from the rental property.

Examples of deductions you can claim for an investment include, but are not limited to, expenses you pay to:

- borrow money to make an investment purchase
- manage your investments
- obtain advice about your investments.

Your total net investment loss does not include any capital gains or losses, such as when a parcel of shares reduces in value. A net investment loss is simply the amount by which your income tax deductions exceed the income you obtain from your investments.

Tax return THRESHOLDS FOR 2010 continued.

When do you make a total net investment loss (continued)?

Example

Gerard has a share portfolio. Gerard's dividend income for the financial year is \$7,000 and he can claim interest expenses of \$10,000. Gerard also sold some of his shares during the financial year and made a \$20,000 capital loss.

Gerard's total net investment loss is the amount by which the deductions he can claim on his shares exceed the income he receives from them. In calculating his total net investment loss, we do not take into account Gerard's capital loss. This means Gerard's total net investment loss is \$3,000.

How does your total net investment loss affect you?

Your total net investment loss does not affect the way you work out your taxable income. You can still claim allowable tax deductions for the expenses you pay for your rental properties or other financial investments such as shares.

However, from 1 July 2009, we will use your total net investment loss will be used in certain income tests to work out whether you are entitled to receive a range of government support programs, certain tax offsets, concessions and deductions. We will also use your total net investment loss to work out whether you need to pay the Medicare levy surcharge.

Example

During the 2009–10 income year, Joe receives \$75,000 of salary and wage income. He also receives \$2,000 of income from a negatively geared share portfolio and can claim \$12,000 as a deduction for his investment expenses.

Joe's taxable income for the 2009–10 income year is \$65,000. His total net investment loss for the year is \$10,000. Joe has no private health insurance.

To work out whether Joe is liable to pay the Medicare levy surcharge, his income is taken to be \$75,000. This is because we will add back his total net investment loss. If Joe is single, his income for surcharge purposes exceeds the surcharge threshold and he will have to pay the Medicare levy surcharge. The surcharge is calculated at a rate of 1% of his taxable income. This means Joe will have to pay a Medicare levy surcharge of \$650, that is, 1% of \$65,000.

Tax return THRESHOLDS FOR 2010 continued.

How does your total net investment loss affect you (continued)?

Remember:

- *you can still claim allowable deductions for your investment expenses*
- *your total net investment loss does not include your capital gains or losses.*

Which government measures are affected?

We will use your total net investment loss to work out whether you meet the income tests for the following tax and transfer programs:

- Medicare levy surcharge
- Higher Education Loan Program and Student Financial Supplement Scheme debts
- dependency tax offsets
- senior Australians tax offset
- claiming a deduction for your business losses (non-commercial losses)

What type of investments will this apply to?

Your total net investment loss will be worked out by adding together your net investment losses from the following two types of investments:

- rental property investments – such as negatively geared rental properties
- financial investments – including the following classes of investment
- shares
 - o managed investment schemes
 - o forestry managed investment schemes
 - o a right or option in respect of any of the above.

We treat your investments the same way, whether they are overseas or in Australia.

Tax return THRESHOLDS FOR 2010 continued.

How do you work out your rental property and financial investment losses?

You work out rental property losses and financial investment losses separately. This means you cannot offset the income you make from your rental property against your losses from your financial investments or vice versa.

You only take into account the net losses from your rental properties and the net losses from your financial investments when working out your total net investment loss.

Example

During the 2009–10 income year, Dean makes a combined net loss on his negatively geared share portfolio and managed investment scheme of \$10,000. He also receives \$15,000 in net rental income against which he has no allowable deductions.

When working out his total net investment loss, Dean does not offset the net rental income he receives against the net loss he makes on his shares and managed investment scheme. This means Dean's total net investment loss for the 2009–10 income year is \$10,000.

Do you meet the income tests?

When you lodge your income tax return, based on the information you provide, we will work out whether you meet the income tests that apply to you.

If you want to work it out yourself, add up all of the income from relevant investments for the year and reduce that amount by the total amount of allowable deductions you claim against that income. Your total net investment loss is the amount by which the deductions you can claim exceed your investment income.

For example, if your income from financial investments is \$20,000 and you can claim \$22,000 of expenses for those investments, your total net investment loss is \$2,000. You must then add your total net investment loss back to your income when working out if you meet certain income tests.

You work out your rental property losses and financial investment losses separately.

Tax return THRESHOLDS FOR 2010 continued.

Examples – how we add back net investment losses

Example: Rental losses

Tony and Dana are in a de facto relationship. Dana is on unpaid leave during 2009-10 and has an investment property which is making a loss. Tony wants to claim the dependent spouse tax offset for Dana in his 2009–10 income tax return.

From 1 July 2009, for the purposes of working out whether Tony can claim the dependent spouse tax offset, we need to work out Dana's adjusted taxable income. Dana's adjusted taxable income includes her total net investment loss.

We work out Dana's total net investment loss like this:

Rental income from the property in the 2009–10 income year	\$20,000
Total expenses relating to the property	<u>\$30,000</u>
Net rental loss	\$10,000

As Dana has no other income or deductions relating to investments, she has a total net investment loss of \$10,000. As Dana had no other income, her taxable income is \$0.

However, to work out whether Tony is eligible for the dependent spouse tax offset, we add back Dana's \$10,000 net investment loss. This means Dana's adjusted taxable income is \$10,000.

As Dana's adjusted taxable income is more than the income threshold for the 2009-10 income year, Tony is not eligible for the maximum dependent spouse tax offset for Dana.

Example: Investment losses

Georgie's taxable income for the 2009–10 income year is \$67,000.

Georgie has a share portfolio with a margin loan to fund the shares. Her tax deductions for the loan are \$14,000. Georgie's gross income from the shares for the income year is \$10,000, including \$7,000 in fully franked dividends and franking credits of \$3,000.

Tax return THRESHOLDS FOR 2010 continued.

Example: Investment losses Continued.

Therefore, Georgie works out her net investment loss like this:

franked dividends received	\$7,000
plus franking credits	\$3,000
total assessable dividend income	\$10,000
less deductible interest expense	<u>\$14,000</u>
Georgie's total net investment loss	\$4,000

At the end of the income year, Georgie lodges her income tax return. Her taxable income is \$67,000. However, we add her total net investment loss to her taxable income for certain income tests.

Georgie's income for Medicare levy surcharge purposes is \$71,000. This means if she has no private health insurance, she will have to pay a Medicare levy surcharge of \$670 (1% of \$67,000).

We only apply the Medicare levy surcharge to taxable income plus any reportable fringe benefit amount. We only use Georgie's total net investment loss to work out whether she needs to pay the surcharge.

"Unfortunately, most people aim at nothing and have amazing accuracy achieving it!"

INTRODUCING NEW CLIENTS

We are pleased to introduce and welcome on board our new clients for June/July to our team. We would also like to take this opportunity to thank our valued current clients who have referred them. We appreciate that you think highly enough of us to recommend us to your family and friends.

- Peter and Auli O'Donnell: Think & Grow Rich in Property Book

STS complimentary mentoring program on offer to our clients:

Access to the STS website containing:

- * *Spreadsheets and information worth \$1000's to help you maximize your tax deductions*
- * *Pro-formas that assist you in preparing documentation to help bullet proof you from a tax office audit*
- * *Newsletters designed specifically for our clients*
- * *MP3 files of our recent teleconferences, for download*
- * *Personalised Tax Data Collection form*

Other complimentary services we offer:

- * *We conduct a free review on your prior year's tax return*
- * *You are able to partake in our teleconferences – ask any general questions, suggest topics to be covered, hear expertise to help in your wealth creation process.*
- * *You can attend our FREE annual seminar*

Feedback

As you are a valued client, we appreciate your ideas on how we can better meet your expectations. If you would like a topic covered please let us know. We look forward to any comments or suggestions you may have—please contact us on stadmin@superiortax.com.au.

SUPERIOR TAX SOLUTIONS PTY LTD

PO Box 922
Mount Eliza Vic 3930

Phone: (03) 9787 - 8906
Fax: (03) 9787 - 8199
E-mail: stadmin@superiortax.com.au



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This newsletter is not specific advice for your personal situation. Please do not act solely on the content of this newsletter. Please seek professional advice before proceeding.

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