

Eastwoods

62 The Parade
Norwood SA 5067
PO Box 165 Kent Town SA 5071
Email consulting@eastwoods.com.au
Telephone 08 8132 9222
Facsimile 08 8363 0443
www.eastwoods.com.au

Christmas review

DECEMBER 2009

Merry Christmas!

We would like to wish all of our clients and colleagues a Merry Christmas, and a safe, happy and prosperous New Year!

We hope that you are able to take a well-deserved break to spend time with family & friends over the Festive Season.

Office Closure

Please note that our offices will be closed from Thursday 24th December 2009, and will reopen on Monday 4th January 2010.

Tax Break Deadline

The opportunity for businesses to acquire new qualifying assets and claim the Rudd Government's tax break expires at the end of December 2009.

To claim the tax break, the investment commitment time must be between 13 December 2008 and 31 December 2009.

The investment commitment time is generally the time at which the taxpayer enters into a contract to acquire the asset, starts to construct the asset, or starts to hold the asset in some other way.

Be aware of Hire Purchase Agreements

If a depreciating asset is subject to a hire purchase agreement, the 'investment commitment time' is the time at which the hire purchase agreement is entered into, as this is the contract under which the taxpayer holds the asset, and not the time the purchase order for the asset is placed with the supplier.

FBT

Donations made under salary sacrifice arrangements

The FBT law has been amended to ensure that, from the 2008/09 FBT year, FBT will not apply where a salary sacrifice arrangement involves a donation to an organisation that is a deductible gift recipient (DGR).

Employees who make donations under such a salary sacrifice arrangement are not entitled to claim an income tax deduction for the donation in their own income tax return.

Data matching projects

The ATO has released details of some specific data matching projects it will carry out:

■ Motor Vehicles

The tax office will collect details of individuals and entities that have motor vehicles valued at \$10,000 or more from the state and territory departments. The aim is to capture lower valued vehicles that are increasingly provided as fringe benefits.

■ Share Market Transactions data matching

Matching data from the ASX Ltd, Computershare Ltd, Link Market Services Ltd and Registries Ltd. The intention of the project is to confirm that entities are complying with their tax obligations relating to share market transactions.

Having a car log book is not enough

If you think you can rely on your log book alone for claiming the business usage of your car, think again!

The "log book method" seems to suggest that the business usage of a car is substantiated by simply maintaining a log book. However, if you are using the log book method for claiming an income tax deduction or reduction of FBT car benefits, having a log book is only one of many factors that you take into account in estimating the business usage percentage of your car.

Although keeping a log book is a precondition for using the log book method, other evidence

such as pattern (or change in pattern) of car use and the number of cars used should also be considered when estimating the business usage percentage of a car. For example, if your business activities or employment duties have varied materially since you established your log book, your estimated business percentage should reflect your current pattern of usage of the car. The log book percentage should only be used as a guide.

This was confirmed in a recent tax case where a taxpayer failed in his claim for an income tax deduction because the log book entries were inconsistent with other evidence.

How often should a log book be renewed?

Log books are to be renewed every five years unless you are specifically requested by the Commissioner to keep a log book for the year, or if you start to use one or more additional cars under the log book method during the year.

Superannuation — don't exceed new limits

From 1 July 2009 the concessional contribution cap was halved to \$25,000 per person per annum (or \$50,000 per person if the member is over 50 years of age).

The concessional contributions cap of \$25,000 is not separate from the superannuation guarantee requirements, so you need to ensure that you include the nine per cent Superannuation Guarantee Contributions (SCG) in your calculations.

Mail-out to super funds members

The Tax Office has commenced sending letters directly to individuals who are most at risk of exceeding the superannuation concessional contributions cap. According to the Tax Office, the aim of the letters is to prompt

the individuals to review the amount of their concessional contributions for the 2009/10 income year.

Clients who have received the letter should contact us to discuss their proposed contributions to avoid triggering any adverse tax consequences.

Medical Expenses Tax Offset

The net medical expenses tax offset allows you to claim 20 cents in the dollar for your total out-of-pocket medical expenses over \$1,500 as a tax offset.

The Medicare benefit tax statement contains information about the out-of-pocket medical expenses incurred by yourself and your dependants based on claims processed by Medicare within the income year. Tax agents can access this Medicare benefit statement for the 2008/09 year by downloading a report from the ATO.

All you need to do is provide your accountant with your Medicare number to use this service.

Rental Properties and Taxation

With confidence diminishing in the world stock markets, some investors are transferring their funds into the rental property market. Many of these are first time investors in this segment and it is necessary that all rental property owners claim appropriate entitlements and fulfil necessary obligations. Therefore the Australian Tax Office has disclosed several Tax Alerts in due course to remind taxpayers to avoid genuine and deliberate mistakes.

Following are some highlighted common mistakes that you should be aware of when preparing your information to go into your income tax return.

One of the most common mistakes is in regard to borrowing expenses. Generally taxpayer must not claim borrowing

expenses in full in the financial year they are incurred unless they are less than \$100. Nevertheless, it can be spread over the period of the lesser of 5 years, or the term of the finance.

Overstating interest deductions is another common problem. In the event that a mortgage is not purely for rental purposes, ie. the mortgage covers both your principle residence and investment property, then the interest must be apportioned based on the loan components. You must calculate the deductible portion relating to the rental property, as borrowings on the private residence can not be claimed as a deduction.

Another item is in what the ATO call Substantiation. It is well known that information relating to your income tax return should be retained for 5 years from lodgement, however, the documentation in relation to ownership, acquisition, disposal and all capital assets should be kept for five years from the date you dispose of the rental property or capital assets.

Other common mistakes which have been detected by the Tax Office include:

- Initial repair and maintenance must not be claimed in full in the first year of acquiring rental property;
- Travel expenses must be apportioned if the travel is combined in with other private purposes;
- All rental property deductions should be incurred when the property is in the condition of genuinely ready for rent. Any expenses prior to this should be capitalised or excluded.
- If the nature of a repair is of a capital improvements and replacement nature, then they must be claimed as a capital work deduction; and
- Incorrect effective life has been applied when calculate decline in value deduction.

Should you wish to discuss any of the above further please contact our office.