Wright Doig & Co

Accounting for Today and Tomorrow

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June 2018

Tax Time is here already

The year seems to have flown by way too fast and it's hard to believe that its tax time again.

This newsletter includes our tax time checklists at the back to assist you in getting everything organized to make all our lives easier. As in the past you have the option to supply your tax return information to us in person or by post, fax or email but in addition you can upload it to your client portal. To stay up to date with current tax issues visit our website or like and follow our facebook page.

Holiday Closure

We are taking a break from Friday 29th June and heading to Toowoomba for the Open National Indoor Cricket Championships and will be back in the office on Monday the 9th July. This gives us the opportunity to not only watch Maddie play but also the chance to catch our breath before what accountants refer to as the Silly Season gets into full swing.

Technology does allow us remote access to our emails, faxes and files so if you require assistance when we are away please leave a phone message or email us and we will endeavor to get back to you within 48 hours.

We look forward to catching up with you soon.

Superannuation Deductions – Important Changes This Year

In the past claiming a tax deduction for personal super contributions was limited to people who were mainly self-employed.

From the 1st July 2017 the 10% earnings test has been removed. This means that most people under 75 years old can claim a tax deduction for personal super contributions.

To be entitled to claim a deduction you must:

1. Have made personal super contributions from your after tax income (this does not include contributions made by way of salary sacrifice or compulsory super paid by your employer)
2. Have lodged a Notice of Intent to claim a deduction form with your superannuation fund
3. Have received an Acknowledgment from your superannuation fund confirming your lodgment of the Notice of Intent.

We will need to receive a copy of your superannuation funds confirmation notice to be able to claim the deduction. Without this notice the ATO will deny any deductions claimed and once your return is lodged it is too late to lodge a Notice of Intent.

The Notice of Intent to claim a deduction is available from your superannuation fund or online from the ATO.

The Work-Related Expense Claims the ATO is Watching This Year

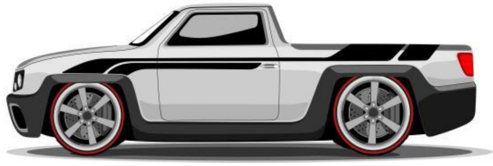
The Tax Office has reported that in *2015/16*, Australians claimed about *$23* billion of work-related expense deductions, however, the ATO believe a significant proportion of this amount is the result of over claiming of expenses. As a consequence, the ATO have stated that they will be monitoring higher than expected claims for cars, travel, clothing, internet, mobile phones and self-education expenses this financial year.

Assistant Commissioner of Taxation, Kath Anderson said, "This tax time, the ATO is looking at higher than expected work-related expense claims by comparing taxpayers with their peers in similar jobs, earning similar amounts of income. While larger than usual claims might be legitimate, it may cause the ATO to ask further questions and check with your employer."

Motor Vehicle Expenses

The most common work-related expense claims are for car expenses, which amount to more than $8 billion in claims each year. The ATO state that travel between home and work cannot be claimed unless your home is your employment base and you are required to travel to a different workplace to work for the same employer.

You must also demonstrate that you regularly work at more than one job site each day before returning home (e.g. a tradesperson) and you had to use your car to carry bulky tools or equipment. According to the Assistant Commissioner of Taxation, "To get a deduction for carrying bulky tools it is not enough to simply choose to carry bulky tools or equipment, such as ladders, wheelbarrows and cement mixers, to work. To claim this deduction, you need to show your employer required you to transport all the tools or equipment to work (that is, you did not carry them as a matter of choice or convenience)."



In addition, you also need to show the equipment was essential to earning your income (that is, without the equipment, you couldn't earn your income), there was no secure area to store the equipment at the work site and the equipment was bulky and difficult to transport.

Travel – Meals and Accommodation
More than *$2* billion of work-related travel expenses are claimed each year.

Taxpayers can claim car fuel and parking for work related trips outside their usual place of work, however, they can only claim costs for accommodation and meals if they are required to work away from home overnight. "You can't claim a deduction for any private component of work-related travel," Ms Anderson said. "Receiving an allowance from your employer does not automatically entitle you to a deduction. If you receive a travel allowance amount on your payment summary (group certificate) you must declare it as income, and you can only claim for the expenses you actually incur."

Internet and Mobile Phone

Taxpayers are not entitled to claim mobile phone and internet use that is for private purposes. The ATO will focus on the apportionment between private and work use. Ms Anderson said, "We allow a claim of up to *$50* for work-related mobile phone and internet use without the need to provide detailed records. However, you still need to be able to demonstrate that you spent the money and were required to incur these costs for your job."

Self-Education

Claims for self-education expenses (which amount to about *$2* billion annually) must be related to current employment, not future or desired employment.

Assistant Commissioner of Taxation, Kath Anderson said, "You cannot claim a deduction for courses that do not have a strong connection with your current employment or a course that might help you get new employment, even if it is your dream job. You might be able to claim a deduction for work-related education expenses if your studies directly relate to your current job, such as upgrading your qualifications or improving specific skills."

Work-Related Expense Claims the ATO is Watching This Year (continued)

Home Office and Work Equipment

Each year more than $7 billion in home office costs, tools, equipment and other items are claimed. Deductions for tools, equipment or other assets can only be made if they are used to earn income. Accessories such as a bag used specifically for work to transport a laptop, papers or other work-related items in doing your job can also be claimed. If you were required by your employer to work from home, you can only claim a percentage of your running expenses for your home office, alternatively the ATO will allow a claim based on the number of hours worked from home.

Clothing—see below

If you have any queries about the tax deductibility of your work related expenses, please don't hesitate to contact us.

Work Clothing Tax Deductions… Myths Debunked

The Australian Taxation Office has warned business owners and employees to get with the program when it comes to claiming tax deductions for their uniform expenses.

Over the past five years, claims for uniform and laundry deductions have increased by around 20%. This has made the ATO sit up and take notice. The ATO Assistant Commissioner, Kath Anderson has stated that too many taxpayers' beliefs around how to claim clothing deductions are wrong. She described these taxpayers as 'confused' and sought to clarify and remind them that you can only claim deductions for occupation-specific clothing.

There are a clear set of guidelines for business owners, employees and the self-employed regarding claiming clothing. Anderson said, "You have to have spent the money yourself and can't have been reimbursed. Two - the claim must be directly related to earning your income, and three - you need a record to prove it."

This has been a hot topic with a government discussion paper released in November last year. It proposed that all non-compulsory work uniforms could be removed from the list of acceptable tax claims. This would include those uniforms worn by nurses and healthcare workers.

In July last year, the ATO Commissioner, Chris Jordan queried the scale of workplace uniform deductions. These deductions amounted to $1.6 billion in 2014/15. That figure would assume half the population of Australian taxpayers were in roles that required them to buy things like protective clothing or a uniform.

There is no doubt that uniform and laundry claims are on the ATO's radar, so let's clear up what you can and can't claim.

What Precisely Can You Claim?

To claim a tax deduction for wearable items of clothing they need to be protective clothing or a registered uniform. Essentially, it has to be something you would not wear outside of work.

The ATO has advised that for business owners who provide corporate wardrobes and occupation-specific clothing to workers in their business, this falls under "other operational expenses", and the business owner can generally claim a tax deduction for these items.

Work Clothing Tax Deductions...Myths Debunked (continued)

For individuals and the self-employed, here are three more things you need to know about uniforms and laundry expenses.

❶ You Must Have Evidence

The ATO has made it clear that if requested, you should be able to provide supporting evidence on:

- How your laundry expenses were calculated
- Why you need to wear specific clothing to work
- How you calculated your final claim figure

The expense claim under most scrutiny this past financial year is the $150 allowance for clothing and laundry. In general, they are more relaxed with regards to record keeping for this category of deduction but something odd has triggered the ATO's attention.

Over 1.6 million taxpayers claim a deduction of *exactly* $150. This common idea you can claim a standard deduction of $150, without spending money on appropriate clothing and laundry, is a myth.

ATO Assistant Commissioner Kath Anderson stated, "We expect many of these claims to be legitimate but the results of our random audits show that people are making mistakes." It is expected that individuals who make this claim this financial year can expect the Tax Office to ask for evidence.

❷ Dress Codes and Colour Requirements

Even if your employer asks you to wear clothes that meet a specific dress code, or colour requirement, you can't claim a deduction. This is because they are still classified as everyday clothing.

It comes back to the point we mentioned earlier; you can only claim for items that you would not wear outside work.

Individuals cannot make claims for everyday clothing even if it's a cultural expectation or specifically requested by their employer, that they appear a certain way at work. This means suits, business attire and formal wear are not tax deductable.

Also, if a business requires employees to wear that business' own products or brand, the employees still cannot claim a tax deduction.

❸ If You Received an Allowance

Finally, if your employer or your own business provides an allowance for clothing or laundry, or has already paid for clothes as a business expense, those claims are also not deductible.

If you received an allowance for part of the clothing or cleaning from an employer, "you need to show the amount of the allowance on your tax return", the ATO advises.

If you're unsure about the tax deductibility of your work related clothing, we invite you to contact us to discuss the rules and regulations.

When Can You Access Your Super?

It's a very common question and superannuation laws constantly change.

You've worked hard to build up a nest egg and everyone wants to retire sooner rather than later. You might also have grand plans and to make it all happen you need to know when you can tap into your superannuation.
As you would be aware, the government puts restrictions on when you can draw down and access your superannuation so that you use your superannuation savings for retirement purposes.

When Can You Access Your Super? (continued)

You can generally only access your super:

- When you turn 65 (regardless of whether you continue working or not).
- When you reach your 'preservation age' and permanently retire.
- When you reach your 'preservation age' and start a Transition to Retirement Income Stream.
- If you become permanently disabled or terminally ill.
- In some special circumstances including compassionate grounds and serve financial hardship.

What is Your 'Preservation Age'?

Your 'preservation age' is the age at which you are generally first allowed to access your super. It's up to you to decide the right time to draw down your superannuation savings. You need to examine how the timing of reaching your preservation age fits in with your projected financial situation and personal circumstances.

For example, you may pay tax if you withdraw your super before you turn 60, either via an income stream or as a lump sum, although some of it might be tax-free (Tax may still apply to withdrawals after age 60 from untaxed funds such as some of the public sector funds, and, as of 1st July 2017, certain recipients of private and public defined benefit pensions which may exceed the $1.6 million transfer balance cap).

Calculating your preservation age depends on your date of birth. When you turn 65, you generally access your superannuation regardless of whether you retire or not.

Your Birthday	Your Preservation Age
Before 1 July 1960	55
1 July 1960 – 30 June 1961	56
1 July 1961 – 30 June 1962	57
1 July 1962 – 30 June 1963	58
1 July 1963 – 30 June 1964	59
From 1 July 1964	60

Source: Australian Taxation Office (ATO) website February 2018.

Accessing Your Superannuation through a Transition to Retirement Income Stream (TRIS)

When you reach your preservation age, you may be able to reduce your working hours without reducing your income by accessing your super as a Transition to Retirement Income Stream. TRIS strategies can be implemented whether working full time or part time.

- Work full time while your employer continues to make contributions into your superannuation account. You may also salary sacrifice into your superannuation. The amount you sacrifice is then supplemented by a Transition to Retirement Pension drawn from your super. This option has become less attractive because as of 1st July 2017, earnings on TRIS assets are no longer tax exempt and attract 15% earnings tax. It is still possible for some income earners that the TRIS payments may be taxed at a lower tax rate than the salary they have replaced.
  OR
- Cut down your working hours and draw on your super through a Transition to Retirement Income Stream to supplement your lost income.

Transitioning to Retirement Income Streams have become less attractive since the removal of the tax exemption on pension asset earnings for TRISs (effective 1st July 2017) along with the cut in concessional contributions cap to $25,000 as of the same date. We strongly recommend you seek financial planning advice from a financial planner to help you decide if it's the right choice for you and your particular circumstances.

2018 Tax Return

Client Checklist

June 2018

2018 - Individual Tax Returns

Income

☐ Gross salary, wages, allowances, benefits, earnings, tips, Directors Fees and Insurance for lost wages.
☐ Income from business activities. ☐ PAYG Payment Summaries.
☐ Details of any non-cash benefits received including discount(s) on employee shares or rights.
☐ Lump sum and termination payments. All documentation should be provided including an ETP Payment Summary from the employer or fund.
☐ Government Social Security payments, including pensions, unemployment and sickness benefits.
☐ Details of any CGT asset sales (e.g. shares, business and real estate). Please include dates of, and costs associated with, acquisition and disposal (You can save tax if you qualify for the variety of CGT concessions).
☐ Annuities, including allocated pensions or superannuation income streams.
☐ Income from trusts and partnerships. Statements of distribution should be provided where appropriate.
☐ Rental income.
☐ Interest and dividends received from any source including life insurance or friendly society bonuses and any tax deducted. Include details of franked dividends (i.e. imputation credits).
☐ Foreign source (employment and pension) income and details of any foreign tax credits, assets or property.

Deductions

☐ Investment and property expenses (carefully detail interest and repair claims), supply statements.
☐ Work-related subscriptions or memberships (not including sporting or social clubs).
☐ Employment related expenditure such as self-education, protective clothing, tools, union fees, uniform and laundry expenses.
☐ Motor vehicle expenses, car finance lease statements (include petrol, repairs, parking and maintain a Motor Vehicle Log Book where necessary).
☐ Donations of $2 and over.
☐ Income Protection Insurance Premiums.
☐ Superannuation Contributions for which you have lodged & received confirmation of Notice of Intent to Claim a Deduction

☐ Home office expenses where employment requires use of your computer, phone or other device.
☐ Tax Agent Fees and other accounting/tax audit fees.
☐ Special deductions (Australian films, investment shelters and agribusiness-type schemes).
☐ Unrecouped prior year losses.

New Clients

☐ Last year's Notice of Assessment and Tax Return (if available)

Rebates

☐ Private health insurance annual statement.
☐ Any changes in dependants, children's details, DOB and any Centrelink benefits applicable (income of spouse should also be provided).
☐ Details of any income received in a lump sum which was accrued in earlier income years (e.g. assessable pensions).
☐ Details of any remote work performed for 183 days or more.
☐ **Note:** The net family medical expenses tax offset is being phased out and for 2017/18 & 2018/19 is restricted to net eligible expenses for disability aids, attendant care or aged care and will cease 1st July 2019 altogether.
☐ HECS-HELP Debt details.

8 Most Common Errors in Income Tax Returns

1. Omitting Interest Income
2. Incorrect or Omitted Dividends Imputation Credits
3. Capital Gains/Losses are Incorrect or Omitted
4. Understating Income
5. Home Office Expenses
6. Depreciation on Rental Property Fixtures and Fittings
7. Depreciation on Income Producing Buildings
8. Borrowing Costs associated with Negative Gearing

2018 - Companies, Partnerships, Trusts and Other Businesses

Income

- ☐ Trading Income.
- ☐ Other Income (e.g. Rent, Interest, Royalties).
- ☐ Stock on Hand at June 30, 2018 (and basis of valuation) – note any obsolete stock.
- ☐ Work-in-Progress at June 30, 2018
- ☐ Primary Producer subsidies (if assessable).
- ☐ Details of CGT assets (e.g. shares and real estate) sold, including dates of, and costs associated with acquisition and disposal.
- ☐ Dividends, including details of franking credits.
- ☐ Income from foreign sources including details of any foreign taxes paid.

Deductions

- ☐ Repairs and maintenance.
- ☐ Salaries, including fringe benefits.
- ☐ Fringe benefits tax paid.
- ☐ Rates, land taxes and insurance premiums.
- ☐ Advertising expenses.
- ☐ Interest on borrowed monies.
- ☐ Deductions relating to foreign-source income.
- ☐ Prepaid expenses (subject to transitional rules).
- ☐ Retirement payments and golden handshakes.
- ☐ Bad debts actually written off during the year.
- ☐ Donations of $2 and over depending on the recipient.
- ☐ Commissions.
- ☐ Legal expenses.
- ☐ Lease or Chattel Mortgage payments on motor vehicles and equipment.
- ☐ Losses of previous years (or intra-group transfers).
- ☐ Superannuation contributions.
- ☐ Subscriptions.
- ☐ Car expenses (remember to include petrol, repairs and parking and maintain a log book where necessary).
- ☐ Tax agent's fees and other accounting and tax audit fees.
- ☐ Royalties paid.
- ☐ Details of the destination and purpose of any interstate or overseas trip. Expenses must be fully documented where travel involves at least one night away from home. Travel diaries should be included where travel exceeds five nights.
- ☐ Research and development expenditure.
- ☐ Bank fees (where the credit or deposit represents assessable income).

Liabilities

- ☐ New loans taken out during the year and their purpose, including any new lease or chattel mortgage agreements on vehicles, equipment or machinery.
- ☐ Statements from the lending authority detailing the opening and closing balances of existing loans during the financial year.
- ☐ Provisions for long service and annual leave.
- ☐ Creditors at June 30, 2018.
- ☐ Details of loan accounts to directors, shareholders, beneficiaries and partners.
- ☐ Accrued expenses (e.g. audit fees, interest payments).
- ☐ Commercial debts forgiven.

Assets

☐ Details of depreciable assets acquired and/or disposed of during this income year, including:

- type of asset;
- date of acquisition;
- consideration received/paid. ☐

Lease commitments.

- ☐ Debtors at June 30, 2018.
- ☐ Commercial debts forgiven.

Additional Information Required

- ☐ Franking account details/ movements.
- ☐ Overseas transactions, exchange gains/losses.
- ☐ Private companies – remuneration or loans to directors, shareholders and their relatives.
- ☐ Changes to the capital of the company.
- ☐ Whether family trust elections have been made in relation to trusts.

Note: To ensure that you obtain the maximum deductions to which you are entitled and in consideration of the penalty provisions, FULL DETAILS of any claim should be provided and supporting documentation made available. For employee taxpayers and for travel and motor vehicle claims by self-employed taxpayers, documentation must be a receipt, tax invoice or similar document which contains certain details. For other taxpayers, documentation may comprise receipts, dockets, diary notations or reasonable and supporting estimates.