YOUR KNOWLEDGE

DGL Accountants Sponsorship of RACQ CQ Rescue Service

DGL Accountants Partner Elizabeth Dent and Junior Accountant Presley Andrew attending the Rescue 412 Corporate Breakfast.

We are proud to once again sponsor this life saving service for our region. Elizabeth Dent and Presley Andrew represented DGL Accountants at the Rescue 412 Corporate Breakfast held Friday 14th September in the CQ Rescue hangar. Mayor Greg Williamson spoke at the event and the service was present with a $50,000 cheque from CQ Rescue Health Services.

190,000 taxpayers 'examined' in ATO online rental blitz

The Australian Taxation Office (ATO) has announced a new data-matching program targeting taxpayers earning income from the exploding popularity of short-term rentals available on platforms like AirBNB and Stayz.

Utilising information from online platform sharing sites matched to information from financial institutions, the ATO is targeting 190,000 individuals to make sure they have not failed to declare or under declared rental income or have overclaimed deductions. In effect, whatever data your sharing platform holds on you will need to match what you have declared in your tax return. And yes, the ATO can potentially check what is coming in and out of your bank account.

The ATO states that there is no such thing as a "rental hobby" so even a one-off rental needs to be declared.

But it's not just the income the ATO are concerned about; deductions claimed are also in the spotlight. The ATO is concerned that some landlords are not only overclaiming - for example, claiming deductions for the whole house when only one room is rented out - but claiming deductions when the accommodation is not genuinely available for rent.

The records utilised by the ATO will be used to identify taxpayers not meeting their registration, reporting, lodgement, or payment obligations when renting out property on a short-term basis, complementing existing long-term rental information the ATO receives from State and Territory Bond Boards.

If you do offer short term rental accommodation, there are a few tax 'ground rules':

- Keep records (particularly if you are claiming deductions)
- Any income from rentals need to be declared – even if it is a one-off rental
- If you rent the property for income producing purposes, you can claim a deduction for the costs of earning that income
- Any deduction claimed needs to be in proportion to the length of time the accommodation was rented, and in proportion to what was rented. That is, if you rent one room, you can only claim deductions for the expenses incurred relating to that portion of the accommodation for the time it was available.
- Deductions are limited to the income earned where the accommodation was provided below market rates, for example to family and friends.
- This activity might impact on your ability to access the main residence CGT exemption on the sale of the property.

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Around 2.1 million individuals reported rental income of $42 billion in 2016 with the figure rising each year. If you are targeted by the ATO, contact us immediately. You have 28 days to respond to an ATO enquiry seeking clarification before any compliance action is taken. If you are concerned you might be a target, consider Tax Audit Insurance to cover the costs of responding to an ATO investigation and make sure your paperwork is in place. The ATO penalty can be as high as 75% of the tax shortfall.

Last minute changes to company tax and franking rate passed by Parliament

Legislation passed by Parliament late last month introduces a new test that will restrict some companies from accessing the lower company tax rate from the 2017-18 financial year.

Across a 3 year period, the company tax and franking rate changed, then the definition of what is a small business entity changed (from a $2 million to $10 million turnover) along with how the franking rates apply, and now we have a whole new set of definitions and rates that have come into play. Complicating the change is the issue of timing; the legislation was passed by Parliament after the end of the 2018 financial year and could impact on not only the tax rate that applies for the year ended 30 June 2018 but also the franking rate on dividends paid since 1 July 2017.

For the 2017-18 income year, the lower company tax rate of 27.5% is available to 'base rate entities'. This means a company that had an aggregated turnover of less than $25 million and no more than 80% of its assessable income for the year was classified as "base rate passive income" (which includes things like rental income, interest and some dividends). While the new $25 million turnover threshold is good news for many companies, the new passive income test will create a problem for others and potentially move them from the reduced rate to the higher general 30% company tax rate. This also has an impact on the maximum franking rate that applies to dividends paid by companies in the 2018 income year onwards.

For the 2018-19 financial year onwards, the turnover threshold has been increased to $50 million.

The problem with the new passive income test is that it is not just a gross turnover test but a test that requires an analysis of the components of that turnover. The new test adds another layer of complexity going forward.

What exactly is 'passive income'?

As noted above, for the 2018 income year, a company will qualify for the 27.5% tax rate if it is classified as a base rate entity. A company will be a base rate entity for the 2018 financial year if:

- Its aggregated annual turnover in the 2018 income year was less than $25m; and
- No more than 80% of its assessable income for the year was "base rate passive income".

Base rate passive income includes the following types of income:

- Dividends, except non-portfolio dividends;
- Franking credits on the dividends referred to above;
- Non-share dividends;
- Interest (although there are some exceptions for some companies);
- Royalties;
- Rent;
- Gains on qualifying securities;
- Net capital gains;
- Income received from a partnership or trust to the extent that it is referable to base rate entity passive income derived by the partnership or trust.

Where a company receives income from trusts or partnerships, you need to trace through to determine the nature of the income derived by that trust or partnership, and this might need to be done on multiple levels. For example, Trust 1 might distribute income to Trust 2, which then distributes income to a company.

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Whether dividends are treated as passive income will depend on the shareholding percentage involved. At a very high level, if the company holds less than 10% of the shares in the company paying the dividends then the dividend should be treated as passive income.

Maximum franking rate

The new rules also make changes to the maximum franking percentage rules. To determine a company's maximum franking rate for a particular income year from the 2018 income year onwards, you need to look at the tax rate that would apply in the current year if the following assumptions are made:

- The company's aggregated turnover in the current year is the same as in the previous year;
- The company's assessable income in the current year is the same as in the previous year; and
- The company's passive income in the current year is the same as in the previous year.

For example, if a company paid a franked dividend in the 2018 income year, its maximum franking percentage will be based on a 27.5% rate if:

- The company's aggregated annual turnover in the 2017 year was less than $25m; and
- 80% or less of the company's assessable income in the 2017 year was passive income.

If the company did not exist in the previous income year, then the maximum franking rate will be based on a 27.5% rate.

If a company paid a dividend in the 2018 income year and this was initially franked to 30% but the new rules mean that the maximum franking rate should have been 27.5%, then it will be necessary to inform the shareholders of the correct franking rate and ensure that the company's franking account balance is adjusted accordingly.

All clear now? The company tax rate changes can be complex. If you are concerned about the impact of the new rules or would like our assistance to manage any dividend issues, please call us.

New rate for car expenses

Did you know the rate for work-related car expenses has increased for the income year starting 1 July 2018?

It is now 68 cents per kilometre. This applies if you have chosen to use the cents per kilometre method for calculating work-related car expenses and will remain in place until the Commissioner decides it should be varied. If you are paying your employees car allowance more than 68 cents per kilometre, you need to withhold tax on the amount you pay over 68 cents.

Very interesting…

Are you taking advantage of your registered tax agents knowledge to help you maximise your claim this year?

Here's an example of an interesting claim falling under Protective Items. Personal items can perform more than one function, and so can have more than one 'use'. For example, some creams and cosmetics can function both as a sun protection feature and as a cosmetic. This would be an example of multiple forms of potential function or use.

You can claim a deduction for the cost of a specific cosmetic that includes sun protection if the cosmetic is worn at specific times when your work requires you to perform your duties in the sun.

You cannot claim a deduction for a cosmetic with sun protection if your work does not require you to perform your duties in the sun. The cosmetic would be a private expense that is not required for your work activity.

Book an appointment today with our friendly DGL Accountants.

Quote of the month

"People should pursue what they're passionate about. That will make them happier than pretty much anything else."

Elon Musk, Co-founder and CEO, Tesla

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