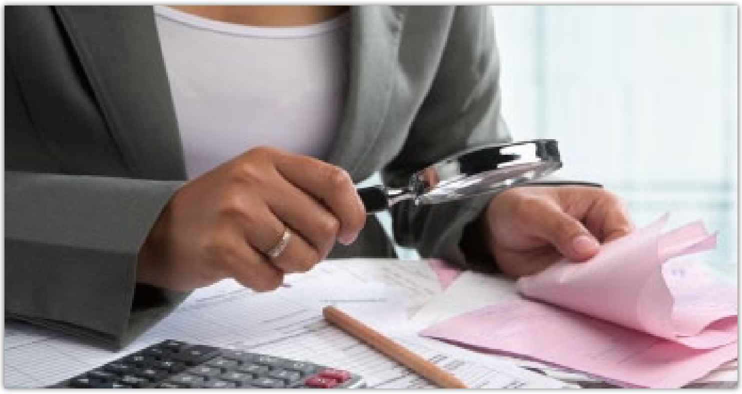
TAX MATTERS

TAX NEWS FOR YOU AND YOUR BUSINESS



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Fringe benefit tax

With the end of the Fringe Benefit Tax year upon us this month, it is critical that as an employer you understand your FBT obligations to avoid significant penalties from the Australian Taxation Office.

FBT is a tax paid by employers, separate from income tax, and based on the taxable value of non-tax benefits provided to your employees or associates. Fringe benefits include car parking, loans, cars, payment of expenses etc.

FBT contributes a significant amount of revenue to the Government each year, and with more than 750,000 employee's receiving fringe benefits in the last FBT year, the ATO does not treat those that evade paying it lightly. The average liability per case for businesses reviewed with respect to FBT was about $77,000, with interest topping almost $20,000.

This FBT year the ATO will be targeting specific areas:

- Not-for-profit concessions for benefits provided to employees of public/non-profit medical institutions.
- Employee contributions through tax agents and self preparers – employee's contributions can reduce the taxable value of a fringe benefit.
- Exempt vehicles.
- Late or absent lodgment of FBT returns – penalties apply.

Not all employers are required to file a FBT return, but with the impending March 31 deadline for the FBT 2011 – 2012 year, it is a good idea to bring yourself up to speed with your responsibilities and obligations if you do.

When may you be required to pay FBT?

- If your employees use business owned cars or vehicles for private use and these are taken home by your employees overnight (even if just for security reasons).
- If you have provided staff with living away from home allowances.
- Where you have taken on any debt owed to the company by an employee.
- If have paid or reimbursed any employee expenses, including food, petrol, entertainment etc.
- If you have provided staff with property such as computer goods, free or discounted.
- If you have provided employees with free or discounted accommodation, or reduced or free-of-interest loans.
- Where you have arrangements in place with employees regarding salary sacrifice.

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Dividend franking of SMSFs

Despite 25 years since its inception in the Australian tax system, there is still a cloud of confusion surrounding the dividend imputation system or the "franking dividend".

With superannuation funds taxed at the rate of 15 per cent imputation credits can be a great tool to enhance your fund's investments. Investing in shares directly or through a managed superannuation fund can benefit you with imputation credits, providing your fund with a financial boost that you will reap the rewards of in retirement.

The benefits of the imputation dividend system are for the majority, determined by individual tax rates and franking levels. For example, the company tax rate in Australia is 30 per cent, meaning the maximum imputation credit available attached to a dividend is 30 per cent of the grossed-up dividend. For investors that receive a fully franked dividend and their marginal tax rate is at 30 per cent or below, the net effect of the imputation system is that they would have received tax-free income equal to the full distribution. For those whose marginal tax rate is below the 30 per cent rate, the benefits of the dividend imputation system are plain – imputation credits that are in excess of income tax liability are available to be refunded in cash by the ATO.

More power to hold refunds

Proposed legislation that would provide the ATO with increased power to withhold tax refunds could potentially affect the cash flow of small to medium enterprises.

The legislation, which was introduced into Government last month, would provide the ATO with the ability to retain refunds claimed by taxpayers for up to 60 days while authentication checks were processed.

The proposed law would be introduced to avoid fraudulent refunds and provide the Commissioner of Taxation with legislative discretion to delay refunds to taxpayers until claim verifications were processed to ensure the correctness of the amount claimed.

While the law applies to all taxes, there would be a particular effect on GST refunds claimed in Business Activity Statements. With many SME's relying on refunds, GST specifically, to inject cash flow into the business, there would be a direct impact on these businesses with delays of up to and more than 60 days on the cards. Businesses and taxpayers can challenge withheld refunds, however this could result in unnecessary costs at the taxpayer's expense.

TAX FOCUS: *CLOSING IN ON TAX CHEATS*

With tax time looming, the Australian Taxation Office has announced tough new measure to clamp down on tax evasion – specifically targeting the hospitality, and building and construction industries.

The ATO has stated businesses that deliberately use cash transactions to hide income and evade tax obligations will be under the spotlight. Illegal behaviour included companies who paid cash-in-hand wages, skimmed cash takings, ran normal business activities off the books, and underground operations that do not register or lodge returns.

Businesses in industries with ready access to cash will be the main target, with the ATO implementing specific strategies to catch offenders. Those involved in illegal business dealings will be investigated and brought to light through data matching – a highly effective system used to identify those who are not reporting income or lodging returns.

Cafes/coffee shops that purchase more than 15kg of coffee per week, as well as individuals and businesses holding a hardware store trade account with yearly purchases totaling more than $10,000, will attract close scrutiny from the ATO.

More than 1000 individuals and almost 400 companies were prosecuted and convicted for tax offences last year.