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CLIENT NEWSLETTER

TAX NEWS, VIEWS AND CLUES

Issue 246 – December 2011/January 2012

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To Make You Smile



Christmas and New Year Office Closure

We plan to close our office from noon Friday 23rd December, 2011 and re-open at 8.45am on Tuesday 3rd January, 2012.

The Partners and staff of McBurney & Partners take this opportunity to wish all our clients and business associates a very happy Christmas and joyous New Year.

SMALL BUSINESS BENCHMARKS UNDER MICROSCOPE

The Inspector-General of Taxation, Ali Noroozi, has advised that he will review the Australian Tax Office's use of small business performance benchmarks. The benchmarks produced by the Australian Tax Office (ATO) are used to identify taxpayers who may not be declaring all of their income and who may be involved in the cash economy. Mr Noroozi said he will investigate whether the benchmarks are an appropriate tool for identifying underreporting of income.

There has been growing concern among tax advisers about the use of benchmarks. The Inspector-General said he will also consider whether the ATO's expectations of small business in relation to record keeping are clearly communicated and reasonable. The investigation is expected to commence later this year.

CARBON TAX SCHEME TO COMMENCE ON 1 JULY 2012

The Government's controversial carbon tax scheme has passed through Parliament and will commence on 1 July 2012. From that date, the country's biggest polluters will be required to pay \$23 for each tonne of carbon pollution released into the atmosphere. As part of the scheme, tax cuts to assist households and support measures for businesses to assist them in adapting to the new carbon tax will also be implemented.

TIP: Although the carbon tax scheme will not commence until next year, businesses should consider putting some serious thought into how they may be affected, both directly and indirectly, by the scheme. Please contact our office for any assistance.

UNCERTAINTY WITH PRIVATE RULINGS SYSTEM

In a recent case, the Full Federal Court unanimously affirmed assessments issued by the Commissioner to a taxpayer, a sports club, even though the assessments were inconsistent with a private ruling issued to the club. In 2004 the club had received a private ruling stating it was exempt from income tax for the 2003 to 2010 income years. However, the Commissioner in 2006 claimed the facts of the club's situation had changed and withdrew the ruling. The club claimed it should be afforded with protection under the tax law. However, the Court disagreed.

TIP: According to some commentators, the court's decision could cause taxpayers to lose confidence in the private rulings system. If you have any questions, please contact our office.

TAXPAYER ENTITLED TO PROMPT GST REFUND, SAYS COURT

An exporter of mobile phone goods has been successful before the Federal Court in a case concerning GST refunds. The Federal Court ordered that the Commissioner comply with the GST and tax law and immediately pay the exporter the net amount notified in its GST returns for various tax periods covering January to May 2011. The ATO had alleged that the refunds claimed were unsubstantiated and were fraudulent. It refused to pay the

amounts until an audit had concluded. However, the Court did not agree that in the circumstances the law allowed the withholding of a payment pending an investigation by the Commissioner. The Full Federal Court later also dismissed the Commissioner's appeal against the decision.

CGT TEST INCLUDES COMMISSION LIABILITY AFTER CGT EVENT

In a recent decision, the majority of the Full Federal Court held that for the purposes of accessing the small business capital gains tax (CGT) concessions, a real estate agent commission incurred on the sale of a hotel business could be included as a liability for the purposes of the maximum net asset value test. This was the case even though the taxpayer was invoiced for the commission after entering the contract of disposal.

TIP: Small businesses can access a range of tax concessions to reduce CGT on the sale of certain assets if certain conditions are met. One of the conditions is that the taxpayer must satisfy the "maximum net asset value" test. To pass the test, the net value of all the CGT assets of the taxpayer (including affiliates and connected entities) must not exceed \$6 million. Debts owed to the taxpayer are included as CGT assets for the purpose of the test. The rules can be complex: please contact our office for more information.

PERSONAL SERVICES INCOME RULES APPLY, FINDS TRIBUNAL

The Administrative Appeals Tribunal has recently held that the personal services income (PSI) rules applied to an IT professional to include in his assessable income amounts derived by his company through the provision of his IT expertise to a small number of clients from the same company group. The Tribunal also held the company was not a "personal services business".

TIP: Many consultants and contractors operate as a sole trader or through a company, partnership or trust. In many cases, the income received for the work they do may be classified as PSI if certain tests are not passed. However, the PSI rules do not apply to individuals or interposed entities carrying on a "personal services business". It should be noted that the PSI rules remain a tax compliance risk area for the ATO. Please contact our office for any assistance.

TAX CHANGES FOR SMALL BUSINESSES INTRODUCED

The Government has introduced legislation into Parliament which proposes to increase the small business instant asset write-off threshold from \$1,000 to \$6,500, and create a single depreciation pool to write-off assets at a rate of 30% (15% in the first year). The changes are proposed to commence from the 2012–2013 year; however, their formal

Important: This is not advice. Clients should not act solely on the basis of the material contained in this Bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.

enactment would first require the commencement of the Government's carbon tax scheme (which will start on 1 July 2012) and the proposed Minerals Resource Rent Tax (MRRT). The changes also propose to allow an immediate write-off of up to \$5,000 for motor vehicles from the 2012–2013 income year. The Assistant Treasurer, Bill Shorten, said under the changes small businesses would benefit from improved cash flow and reduced compliance costs.

SUPERANNUATION GUARANTEE TO BE INCREASED TO 12%

Legislation has been introduced into Parliament which proposes to increase the superannuation guarantee (SG) rate from 9% to 12%, phasing in from 1 July 2013. The Government also announced that it would abolish the age limit for which employers no longer need to provide superannuation guarantee.

TIP: If the SG age limit is to be abolished, then from 1 July 2013, employers will be required to make SG contributions for employees regardless of an employee's age.

To MAKE YOU SMILE

Three sisters aged 92, 94 and 96 lived in a house together. One night the 96 year old draws a bath. She put her foot in and paused...

She yelled to the other sisters, "Was I getting in or out of the bath?" The 94 year old shouted back, "I don't know. I'll come and see." She started up the stairs and paused "Was I going up the stairs or down?"

The 92 year old was sitting at the kitchen table listening to her sisters. She shook her head and said, "I sure hope I never get that forgetful," she knocked on the wooden table, then yelled, "I'll come up and help both of you as soon as I see who's at the door."

Driving

Two elderly women went out driving in a large car – both could barely see over the dashboard. As they were cruising along, they came to a major crossroad. The lights turned red but they went on through anyway.

The woman in the passenger seat thought to herself "I must be losing it. I could have sworn we just went through a red light." After a few more minutes, they came to another major junction and the light was red again. Again, they went through. The woman in the passenger seat was almost sure that the light had been red but was really concerned that she was losing it. She was getting nervous. At the next junction, sure enough, the light was red and they went through. So, she turned to the other woman and said, "Mildred, did you know that we just ran through three red lights in a row? You could have killed us both!" Mildred turned to her and said "Oh! Am I driving?"

