

ON THE MONEY

An update from Bayside Business Accountants



Keep up to date with all the ongoing tax changes that affect you, your family or business. It is a new financial year and some of our latest news includes the ATO cracking down on eBay users, a superannuation guarantee increase for employees and new constraints introduced on the Net Medical Expenses Tax Offset and Self-Education Expenses. We also cover the following topics below:

- Personal Taxation
- Superannuation Changes
- Tax Compliance
- Information for Employers
- ATO Data Matching



Make sure you claim all of your deductions and get a larger refund from your tax return! Call us today on **9583 4316** to book your appointment.

Personal Taxation

Individual Tax Rates

There will be no change in the marginal tax rates already legislated for individuals for the 2013, 2014 and 2015 income tax years. The Government has also indefinitely deferred the previously proposed increase in the tax-free threshold to \$19,400 from 1 July 2015. The tax rates for resident individuals for the 2013 to 2015 income years (excluding the Medicare levy) will remain as follows:

Taxable Income	Tax Payable
0 - \$18,200	Nil
\$18,201 - \$37,000	19% of excess over \$18,200
\$37,001 - \$80,000	\$3,572 + 32.5% of excess over \$37,000
\$80,001 - \$180,000	\$17,547 + 37% of excess over \$80,000
\$180,001+	\$54,547 + 45% of excess over \$180,000

Medicare Levy

Funding for the National Disability Insurance Scheme (Disability Care) was confirmed in the Federal Budget and will be funded by an increase of 0.5 percent in the Medicare levy (to 2 percent) from 1 July 2014.

The Medicare Levy low income thresholds for the 2012/13 income year will increase to \$20,542 for individuals, \$32,279 for pensioners eligible for the Seniors and Pensioners Tax Offset and \$33,693 for families. The additional family threshold amount for each independent child or student increases to \$3,094.



Net Medical Expenses Tax Offset

The Net Medical Expenses Tax Offset (NMETO) will be phased out from 1 July 2013 through a combination of reducing the range of medical expenses that qualify for the offset and limiting the number of taxpayers who qualify for the offset. Individuals will only be able to claim the NMETO in the 2014 and 2015 income tax years if they claimed the offset in the prior year. From 1 July 2015, the NMETO will be restricted to out of pocket medical expenses relating to disability aids, attendant care and aged care expenses. The NMETO will be removed from 1 July 2019 when Disability Care Australia will be fully operational.

In the 2013 financial year, individuals earning less than \$84,000 or couples earning less than \$168,000 plus \$1,500 for each dependent child after the first can claim a tax offset of 20% of all net medical expenses over \$2,120. For all other taxpayers, a tax offset of 10% of all net medical expenses over \$5,000 is claimable.

Self-Education Expenses

Work related self-education expense deductions will be capped at \$2,000 from 1 July 2014 (previously there was no cap). The proposal will limit the amount that individuals can claim for self education expenses incurred in undertaking a course or activities that have a direct connection to their current work activities. Accordingly, expenditure on course and tuition fees, textbooks, journals, computers, stationery and travel and accommodation costs will be limited from 1 July 2014.

Employers who provide or fund work related education and training for employees will not be liable for fringe benefits tax regardless of the amount unless the employee salary sacrifices to obtain these benefits.

The existing discounts which apply to up-front and voluntary payments made under the Higher Education Loan Program (HELP) will be removed from 1 January 2014.

Baby Bonus Abolished and 'Work Test' under the Paid Parental Leave Scheme Extended

The Baby Bonus will be abolished from March 1, 2014 in favour of new support for families of newborns through the Family Tax Benefit Part A (FTB Part A). The Government will increase these payments by \$2,000, to be paid in the year following the birth or adoption of a first child or each child in multiple births, and \$1,000 for second or subsequent children. The additional FTB Part A will be paid as an initial payment of \$500, with the remainder to be paid in seven fortnightly instalments.



The Baby Bonus currently cuts out at an earnings threshold of \$150,000, but the earnings cut-off for FTB Part A is \$94,316 so the Government's move effectively limits a high proportion of top earners' access to the financial assistance for newborns. Families accessing the Government's Paid Parental Leave (PPL) scheme, which remains unchanged, will not be eligible for the additional FTB Part A component. However, the work test under the PPL scheme will be extended so that parents will be able to count periods of Government PPL as "work", just like employer-funded PPL.

Superannuation

The 2013/14 Budget contained little new superannuation news, instead restating measures already announced by the Government on 5 April 2013 including:

Changes to the Concessional Contributions Cap

The Government proposes to change the concessional contribution caps so that taxpayers aged 60 and over will have a \$35,000 cap from 1 July 2013, while Taxpayers aged 50 and over will have a \$35,000 cap from 1 July 2014. For remaining taxpayers the cap will remain at \$25,000. The Government's previous plan to have a \$50,000 concessional cap for individuals aged 50 and over with less than \$500,000 in superannuation has been permanently scrapped.

Excess Concessional Contributions Tax

From 1 July 2013 individuals will be able to withdraw concessional contributions above the cap (currently \$25,000). Withdrawals will be taxed at the individual's marginal rate plus an interest charge instead of at the top marginal tax rate of 46.5%. It is not clear if the excess concessional contribution will still be counted towards non-concessional contribution caps. On a practical level the proposal may provide some relief for individuals on tax rates less than the top marginal rate that make excess concessional contributions. However, for taxpayers on the top marginal tax rate the measure provides no relief.

Tax-free Pension Earnings Capped at \$100,000

From 1 July 2014, earnings on assets supporting income streams above \$100,000 per year will be taxed at the rate of 15 percent. Currently all earnings from assets supporting superannuation income streams are tax free.

The following transitional arrangements will apply for capital gains on assets purchased before 1 July 2014:

- For assets the Fund held at 5 April 2013 only the capital gains that accrue after 1 July 2024 will be counted;
- For assets purchased between 5 April 2013 and 30 June 2014 inclusive, the Trustee must include the lower of the total gain or the gain accrued after 1 July 2014; and
- For assets purchased from 1 July 2014 the entire gain will be included.

All capital gains included in the above measures will be taxed at 10%.

Other proposed superannuation reforms previously announced on 5 April 2013 include:

Lost superannuation transfers - the account balance threshold above which lost and inactive superannuation accounts must be transferred to the Tax Office will be increased from \$2,000 to \$2,500 from 31 December 2015 (and to \$3,000 from 31 December 2016).

Tax Compliance

Data Matching and Third Party Information

The Government will provide \$77.8 million over four years to the ATO to improve compliance by expanding data matching with third party information. This will cover not only domestic activities but extend to Austrac reported transactions. Treasury said the information provided will also improve the pre-filling of tax returns and the measure will establish new and strengthen existing reporting systems for:

- taxable Government grants and certain other Government payments
- sales of real property, shares and units in managed funds
- sales through merchant debit and credit services
- managed investment trust and partnership distributions, company dividend and interest payments, and

- transactions reported to the ATO by the Australian Transaction Reports and Analysis Centre

Trusts Taskforce

The Government has announced nearly \$70 million in funding over 4 years for an ATO taskforce to target the use of Trust structures by wealthy individuals. The Assistant Treasurer announced that the ATO would focus on arrangements to avoid and evade tax, including mis-characterising transactions, concealing income, entering contrived loan agreements and artificially reducing trust income.

Dividend Washing

The Government has announced that the practice of 'dividend washing' (or dividend double dipping) will be specifically legislated against from 1 July 2013. This practice involves a shareholder (often a superannuation fund) selling shares ex-dividend and then re-acquiring equivalent shares which still carry the right to a dividend (known as cum-dividend shares). In effect the shareholder receives two sets of franking credits for the same parcel of shares.

ATO Data Matching Update and the eBay crackdown

Data-matching or comparing the same piece of information from two different sources has expanded rapidly in recent years. Four years ago, the ATO matched 50 million transactions and this year it will match 500 million.

Most business owners are aware of the Tax Office's data-matching activities but technology is revolutionising the ATO's compliance capabilities. With a few mouse clicks, the ATO's \$800 million computer system can uncover abnormalities and irregular transactions that used to involve up to seven weeks of manual work. With each mouse click, 300 analysts in the ATO's elite fraud squad can see new links in the data that is helping them trace potential taxable transactions or fraud they might have overlooked. Some may be surprised to know the depth and spread of the data the ATO use.

Historically, the data-matching programs linked such things as property sales, share sales, investment income and car registration records. However, the ATO continues to widen the net to include the building industry, coffee suppliers, contractor payments, credit/debit sales, offshore bank accounts and social security payments. The computer can now access every piece of data about your affairs including every dollar you've earned, properties, cars or boats you've purchased and your business connections including the tenants in your investment property and the members who sit on your company's board. The computer matches tax records against third-party data received from banks, share registries and other government agencies such as Centrelink and the Australian Securities and Investments Commission, checking employment, dividend, rental and other income.

The ATO recently announced that it would utilise data-matching programs specifically targeting online sellers. This would include Individuals who have made sales of \$20,000 or

more in the 2010/11 financial year through various online selling websites such as eBay. The kinds of information to be collected will include:

- user identification name and number and registration date
- name, address, telephone number and email
- date of birth
- number and value of monthly sales
- Australian Internet Protocol address
- bank account details



The ATO reports they have targeted a select number of online selling sites because they represent some of the largest market participants in Australia. These groups also track the sale/purchase price of goods and services through their websites. Around 11,000 individuals will have their records matched to identify non-compliance with lodgement, payment and correct reporting obligations under taxation law, including undeclared income and GST obligations.

eBay Businesses Crackdown



As of May 2013, the ATO also reports that part of its permanent compliance program will include data matching Centrelink records against eBay users. The Government claims that the pilot program has identified that there are people claiming social security benefits whilst running what it considers to be a successful online business.

The intention is not to catch out people selling a few second-hand items but instead identify people who earn large amounts from eBay, while also claiming support from the Government. The pilot program identified around 100 cases warranting further investigation.

Employers being cross-checked too...

Also new to the ATO data-matching program is the capture of the names and addresses of employer entities from state and territory WorkCover and WorkSafe sources for the 2011 to 2013 financial years.

The data provided by WorkCover and WorkSafe will be compared with tax records to identify employers that may not be complying with their registration, lodgement and payment obligations under taxation law. There may also be some referrals back to the state and territory authorities as the ATO said it may also disclose information about employers that may not be meeting their workers' compensation obligations.

Superannuation Guarantee Increase

Business owners need to:

As of the 1st July this year, all Australian employers will have to do two things to their payrolls:-

1. Increase the amount they pay into their employee's superannuation fund from 9% to 9.25%.
2. Start paying superannuation contributions for any employees 70 years or over as the upper age limit for superannuation has been removed.

The Superannuation Guarantee (SG) rate will increase to 9.25% as of 1st July 2013 with another 0.25 percent increment from 1st July 2014. Annual increments of 0.5 percent will apply up to 2019/20 taking the SG rate to 12%.

Year	Rate (%)
2013/14	9.25
2014/15	9.5
2015/16	10
2016/17	10.5
2017/18	11
2018/19	11.5
2019/20	12

This measure is part of Australia's compulsory superannuation savings system which has been in place since 1992 and is designed to increase the future retirement incomes of Australian workers. The challenge will be to ensure an adequate retirement income for our ageing population and to reduce the reliance on the Age Pension system. The number of Australians aged over 65 is projected to grow from 3 million to 8.1 million by 2050. The ratio of working age Australians to those over age 65 will decrease from 5-to-1 to just 2.7-to-1 over the next 40 years.

Now is a great time to establish your own super fund



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