

JAMES. W. MANN  
& ASSOCIATES

ACCOUNTANTS

## 2016 Summer Newsletter



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As always the festive season seems to creep on us with more speed with every passing year!

I trust you and yours have enjoyed a successful and prosperous 2016 and are looking forward, as we are, to the opportunities 2017 will bring.

With the calendar year drawing to a close, this edition of our newsletter should provide some enlightening holiday reading. Highlights include an update on the Superannuation reforms, ATO warning on high deductions, personal income tax relief, Director's personal liability for unpaid company tax, Cross-border GST, Claiming mobile,

internet, and home phone expenses, a tax determination on gifts provided to clients, organising your business day for maximum results, an interest rate update, and just in time for the festive season, as well as a last minute gift guide for the busy small business owner in your life.

If you have any questions relating to any of the articles in our newsletter, please give us a call, we are here to help.

Wishing you and your family all the best for the festive season!

#### General Advice Warning

Information provided on this newsletter is general in nature only and does not constitute personal advice. The information has been prepared without taking into account your personal objectives or needs. Before acting on any information in this newsletter you should consider the appropriateness of the information having regard to your objectives and needs.

# Superannuation Reforms Passed

On 23 November 2016, some of the most far-reaching superannuation reforms of the past decade were passed by both Houses of Parliament. The superannuation reform package was announced in the 2016-17 Budget and amended following consultation. The changes aim to improve the fairness, sustainability, flexibility and integrity of the superannuation system.

The superannuation reforms include the introduction of a \$1.6 million transfer balance cap, which places a limit on the amount an individual can transfer into the tax-free earnings retirement phase and the introduction of the Low Income Superannuation Tax Offset, which is expected to boost the retirement incomes of around 3.1 million low income earners.

The changes that will have the most significant negative impact will affect the more affluent members of our community. In saying that, there are going to be very few Australians who will be adversely affected by even the worst of the changes. For those who are adversely affected, some careful planning and good financial advice should be sufficient to mitigate the worst of the undesirable outcomes.

Most of these measures will take effect from 1 July 2017. Better targeted tax concessions will make the superannuation system more sustainable as the population ages and fiscal pressures increase. Savings also enable reforms that allow the system to work better for all

Australians and increase its flexibility to align with the changing work-life patterns of modern Australia.

2016-17 Budget and related superannuation reforms include:

- Legislating the objective of superannuation.
- Introducing a \$1.6 million superannuation transfer balance cap.
- Reforming the taxation of concessional superannuation contributions.
- Lowering the annual non-concessional contributions cap.
- Introducing the Low Income Superannuation Tax Offset (LISTO).
- Improving access to concessional contributions.
- Allowing catch-up concessional contributions.
- Extending the spouse tax offset.
- Removing barriers to innovation in retirement income stream products.
- Improving the integrity of transition to retirement income streams (TRIS).
- Abolishing the anti-detriment rule.
- Streamlining administrative processes.

Further details on the Government's superannuation reform package are available on the treasury website at [www.treasury.gov.au/superreforms](http://www.treasury.gov.au/superreforms).



# ATO Warns High Deductions are Easier to Detect than Ever

The ATO's ability to identify and investigate work expense claims that differ from the 'norm' is improving each year at a rapid rate due to enhancements in technology and the use of data. These enhancements mean that every return is scrutinised and it is becoming a lot easier to identify claims that are significantly higher than those claimed by people with similar occupations and employment income.

In addition to focusing on work-related expense claims that are significantly higher than expected, the ATO will also be paying particular attention to claims:

- that have already been reimbursed by employers, and
- for private expenses such as travel from home to work.

## Help to get it right

It's important for people claiming to carefully review deductions before lodging their tax return to avoid a delay in getting a return. There are key points for people to remember when claiming work-related expenses:

- your claims are justified
- you have not already been reimbursed for the expenses by your employer
- you are getting good advice
- you have evidence to support your claims
- the claims are related to your work
- you know what is and is not deductible
- you back up your data.

When claiming work-related travel, it's important to remember you cannot claim for a normal trip between home and work, unless:

- you use your car to carry bulky tools or equipment which you use for work and can't leave on the work premises;

- your home is a base for employment or
- you have shifting places of employment (you regularly work at more than one place each day).

## Case studies

In a recent case, a railway guard claimed work-related car expenses for travel between his home and workplace. He indicated that this expense related to the carriage of bulky tools – including a flag, safety vest, handheld radio, torch, instructions and timetables. During our investigations the employer advised that the equipment was able to be securely stored on their premises. The taxpayer's car expense claims were disallowed because the transportation of the equipment between home and work was his personal choice.

In another case a taxpayer lived in Western Australia and moved to take up a job in Victoria. He claimed expenses of over \$18,000, which included motor vehicle costs to travel to another state to purchase a caravan. He also claimed the costs associated with buying the caravan and driving to Victoria to take up the job. When prompted by the ATO, the taxpayer amended his work-related expense claims to just over \$1,300, which excluded all the travel costs associated with moving to his new work location.

**Remember also**, if your total claim for work-related expenses is \$300 or more, you must have written evidence to prove your claims and generally, you must keep your written evidence for five years from the date you lodge your tax return.

Make sure your claims for work-related expenses are right by contacting us or using the series of occupation guides or other general advice available on the [ATO website](#).



# Personal Income Tax Relief

Legislation was passed on 12 October 2016 which increases the middle tax bracket threshold from \$80,000 to \$87,000, retrospectively from 1 July 2016. The marginal tax rate of 37 percent now starts at \$87,000 instead of \$80,000. By pushing up the tax threshold on the middle tax bracket, average full-time wage earners will be kept on the lower rate for longer. This will stop around 500,000 taxpayers facing the 37 percent marginal tax rate this coming financial year.

Examples of the reduced amount of tax for the full year are shown below:

\$80,000 or less	\$0
\$81,000	\$45
\$82,000	\$90
\$83,000	\$135
\$84,000	\$180
\$85,000	\$225
\$86,000	\$270
\$87,000 or more	\$315

## For employees:

If you earn more than \$80,000, your employer will reduce the amount of tax being withheld from your pay. You don't have to do anything. Any extra tax you have paid before the change will be credited to you when you lodge your 2017 income tax return.

## For employers:

New tax tables and payroll software updates apply and the ATO Tax Withheld Calculator has also been updated.

The updated tax table is downloadable from the [ATO website](#).

## Director's Personal Liability for Unpaid Company Tax Hidden Dangers of Unpaid or Unreported PAYG withholding or SGC Charges

If you are a director or are about to become a director of a company, you should make immediate inquiries to ascertain if there are any unpaid and unreported Pay As You Go (PAYG) withholding or Superannuation Guarantee Charge (SGC) amounts.

Directors of a company that fail to meet a PAYG withholding or SGC liability by the due date will become personally liable for a penalty equal to the unpaid amount. The Commissioner of Taxation may issue you with a director penalty notice (DPN) in respect of a penalty which is equal to your company's unpaid liabilities. Failure to take appropriate steps within 21 days may result in the Commissioner taking recovery action against you personally to recover that penalty, which is equivalent to your company's unpaid PAYG withholding or SGC liabilities.

Even if you are no longer a director of a company, or are a newly-appointed director, or even if you were not a director at the time the debt was incurred, a director penalty may still apply to you.

Therefore, when and if buying a company, a key component of the due diligence process undertaken by a potential purchaser should be an assessment of whether the

company is up-to-date with its PAYG and SGC obligations (as part of this, a potential buyer should also consider whether any 'contractors' to whom payments were made would be seen as 'employees' in the eyes of the ATO, WorkCover and State Revenue Offices).

The buyer will also ordinarily want the vendor to provide some kind of indemnity in relation to the buyer's PAYG and SGC exposure.

Please contact our office if you would like any more information on the above.



# Claiming Mobile Phone, Internet and Home Phone Expenses



The Australian Taxation Office has recently issued a fact sheet entitled “Claiming mobile phone, internet and home phone expenses”, which now generally requires many taxpayers making such claims to keep a 4-week diary.

If you use your own phones or internet for work purposes, you may be able to claim a deduction if you paid for these costs and have records to support your claims. If you use your phones or internet for both work and private use, you will need to work out the percentage that reasonably relates to your work use.

If your employer provides you with a phone for work use and is billed for the usage (phone calls, text messages, data) then you are not able to claim a deduction. Similarly, if you pay for your usage and are subsequently reimbursed by your employer, you are not able to claim a deduction.

If you use your own phones or internet for work purposes, you need to keep records for a 4-week representative period in each income year to claim a deduction of more than \$50. These records may include diary entries, including electronic records, and bills. Evidence that your employer expects you to work at home or make some work-related calls will also help you demonstrate that you are entitled to a deduction.

As there are many different types of plans available you will need to determine your work use using a reasonable basis.

## INCIDENTAL USE

If your work use is incidental and you are not claiming a deduction of more than \$50 in total, you may make a claim based on the following, without having to analyse your bills:

- \$0.25 for work calls made from your landline,
- \$0.75 for work calls made from your mobile, and
- \$0.10 for text messages sent from your mobile.

## USAGE IS ITEMISED ON YOUR BILLS

If you have a phone plan where you receive an itemised bill, you need to determine your percentage of work use over a 4-week representative period which can then be applied to the full year.

You need to work out the percentage using a reasonable basis. This could include:

- the number of work calls made as a percentage of total calls.

- the amount of time spent on work calls as a percentage of your total calls.
- the amount of data downloaded for work purposes as a percentage of your total downloads.

## USAGE IS NOT ITEMISED ON YOUR BILLS

If you have a phone plan where you don't receive an itemised bill, you determine your work use by keeping a record of all your calls over a 4-week representative period and then calculate your claim using a reasonable basis.

## BUNDLED PHONE AND INTERNET PLANS

Phone and internet services are often bundled. When you are claiming deductions for work-related use of one or more services, you need to apportion your costs based on your work use for each service. If other members in your household also use the services, you need to take into account their use in your calculation.

If you have a bundled plan, you need to identify your work use for each service over a 4-week representative period during the income year. This will allow you to determine your pattern of work use which can then be applied to the full year.

A reasonable basis to work out your work related use could include:

### Internet:

- the amount of data downloaded for work as a percentage of the total data downloaded by all members of your household.
- any additional costs incurred as a result of your work-related use – for example, if your work-related use results in you exceeding your monthly cap.

### Phone:

- the number of work calls made as a percentage of total calls.
- the amount of time spent on work calls as a percentage of your total calls.
- any additional costs incurred as a result of your work-related calls – for example, if your work-related use results in you exceeding your monthly cap.

Alternatively contact our office and we can review your particular situation.

# Heading for the Silly Season – Deductability of Client Gifts

Tax Determination 2016/14, effectively replaces ATO ID 2004/427 (now withdrawn), and confirms that a taxpayer carrying on business is generally entitled to a deduction for an outgoing incurred on a gift made to a former or current client, if the gift is characterised as being made for the purpose of producing future assessable income.

However, the outgoing will not be deductible to the extent it:

- is of a capital nature;
- relates to the gaining of exempt or non-assessable non-exempt income; or
- some provision of the income tax legislation prevents it from being deductible (e.g., the gift constitutes the provision of entertainment that is not deductible).

The determination also highlights that a deduction will be denied where expenditure on gifts is more accurately described as being 'private' in nature (for example, where a gift is provided to a relative outside a business' usual practice of providing client gifts).



## **Example 1:**

Sally is carrying on a renovation business. Sally gifts a bottle of champagne to a client who had a renovation completed within the preceding 12 months. Sally expects the gift will either generate future business from the client or make them more inclined to refer others to her business. Although Sally got on well with her client, the gift was not made for personal reasons and is not of a private or domestic character. The outgoing Sally incurred for the champagne is not of a capital nature.

Sally is entitled to a deduction under section 8-1 of the ITAA 1997.

## **Example 2**

George is carrying on a business of selling garden statues. George sells a statue to his brother for \$200. Subsequently, George gifts a bottle of champagne to his brother worth \$170. Apart from his transaction, George provides gifts only to clients that had spent over \$2,500 over the last year. The gift has been made for personal reasons, and is of a private or domestic character.

George is not entitled to a deduction under sections 8-1 or 40-880 of the ITAA 1997.

**Call our office if you have any questions regarding this determination.**

## **GST Extended to Cross-Border Digital and Other Imported Services**

In the 2015–16 Budget, the government announced that the application of the GST will be extended to cross-border supplies of digital products and other services imported

by Australian consumers. This includes digital products such as streaming or downloading of movies, music, apps, games, e-books as well as services such as architectural or legal services. Legislation giving effect to this measure received Royal Assent on 5 May 2016 and will apply from 1 July 2017.



# Organising Your Business Day for Maximum Results

Running a home business has so many working parts. It can be hard for new entrepreneurs to prioritise every task that needs to be done. In many cases, home business owners spend a lot of time doing things that don't lead to fast and profitable results.

Leslie Truex, a home business entrepreneur, offers suggestions to help you organise your day and prioritise your time. These tips can be handy for those of you not working from home too!

## KNOW YOUR PEAK WORK TIMES

Many productivity books suggest that you don't put email as your first to-do in the morning. Others recommend putting your hardest tasks first. But true productivity comes when you understand your peak work times and schedule your work accordingly. For some, settling into work-mode takes time, so starting with email is an easy way to start the day. For others, their energy drains after lunch, so it's better to email in the afternoon, and to focus on more important tasks in the morning while your energy is high.

Some home business owners have several energy peaks and lows during the day. For example, they might be energised to work early in the morning and again late at night. In that case, working during those times, and doing something else during the late morning and early afternoon is the ideal schedule.

## PRIORITISE YOUR TASKS

One of the biggest challenges of running a home business is to make sure you are focused on the tasks that make you money. Having a filing system is important, but not more important than doing work for a client or shipping your product. Ideally, you should prioritise your tasks in order of their results:

1. **Makes money now:** Doing work for or invoicing a client.
2. **Makes money in the near future:** New projects, marketing, customer service.

3. **Makes money in the far future:** Projects that take time to put together, networking.
4. **Business management:** Non-marketing or customer service email, doing the books, filing, etc.

## ORGANISE AND SCHEDULE YOUR DAY

Most home businesses will have the ability to have a set schedule with repeating tasks. For example, a freelance writer can have a set time to write each day. A virtual assistant will have a set time to manage client social media and other tasks. While working from home allows for flexibility, it isn't bad to have a routine for tasks you do regularly. A schedule creates a routine and habit, so you don't have to think about what you need to do. It helps you organise and plan the non-regular aspects of your day around your normal activities.

For a schedule to work, you need to stick to it. So if you find you are procrastinating a lot, it's time to go back to reviewing your peak work times or consider hiring a virtual assistant to do the non-money-making tasks you may be avoiding.

## MANAGE UNKNOWNNS AND INTERRUPTIONS

The biggest challenge to home based business owners is dealing with distractions and managing the tasks that aren't scheduled. Too often you're interrupted by a phone call or an unforeseen issue and your routine goes out the window. Another issue related to managing your tasks has

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## Organising Your Business Day for Maximum Results

to do with activities related to long-term projects, which often get pushed aside for more pressing tasks. To best manage activities that you haven't planned for, you want to assess their importance and either do it, schedule it, or delegate it.

- 1. Do it:** These are pressing issues or crises that must be dealt with. The challenge is in knowing if a task is so important that it automatically goes to the top of the list. Anything that can affect your income should be considered important. So if your website is down, you want to deal with it first. If a customer is complaining, you need to fix it fast.
- 2. Schedule it:** For to-dos that pop up that need to be done, but not necessarily ASAP, work them into your schedule later.
- 3. Delegate it:** Any time you can take a task off your plate, you'll have more time to focus on the important money-making tasks. So if an issue pops up, and you have a good virtual assistant, see if he or she can deal with the issue.

When working on a long-term project, the best way to manage those tasks into your schedule is to:

- 1. Break down the project** into its to-dos.
- 2. Pick a "Done" date**, when you want the project completed.
- 3. Schedule in the to-dos** from now until the done date.

### USE A SYSTEM

There are many great online and print systems to help you organise and schedule your day. The trick is to find the one that works for you. Digital systems often have web-based and smartphone apps so you can keep organised while away from your home office. Some home business owners prefer a print system and the ability to physically check off to-dos. Some people use a combination of both.

If you're not sure what's best for you, test the various options, taking in consideration how you work, and how many cues, triggers or alarms you need to keep you on schedule.

Ideally, you'll want to schedule for the week, maybe even a month. However, it's important to review and adjust your daily plan as needed.



## How do You Rate Your Interest..

There is considerable uncertainty in the market place as to where interest rates may be heading. What you need to be aware of is that you can often negotiate with banks to obtain better rates.

- **Interest rates for residential property** are currently at record low rates. Subject to your level of debt, loan amounts and other loan specific factors, the variable rates can be as low as 3.69%, whilst some banks are offering fixed rates for three years at 3.59% and five year rates as low as 3.80%.
- When looking at any available rates you need to check any **fees and charges**, both upfront and ongoing, which might apply to the loan.
- **Commercial rates** are higher compared to residential rates. Establishment costs and ongoing costs can also be more expensive.
- **Rates for superannuation funds** whether borrowing residential or commercial property are generally higher.

People often ask whether it is time to fix interest rates. The answer is that it depends on your view of the economy. If you believe that things will continue to deteriorate, then variable rates will continue to fall.

However, you should be aware that fixed rates usually run ahead of variable rates. By this, we mean that as an economy deteriorates, fixed rates are often already lower than variable rates. If you are uncertain as to what lies ahead you could consider locking away some of the debt and leaving the balance variable.

If you are curious about what rates are available for your particular circumstance please contact our office and we will be delighted to point you in the right direction.

# Santa's List - 10 Books Every Small Business Owner Should Read



Other than time, have you been wondering what fabulous gifts you can give yourself or a fellow small business owner? Perhaps one of the thousands of great business books out there that can help you start a business, set and achieve goals, promote your business, manage your finances and so much more.

But wait, there are so many business books on the shelves that it can be overwhelming to determine which are worth reading. Small business information expert Alyssa Gregory has taken out the guesswork.

Here is a list of 10 inspiring and actionable business books that provide you, or the small business owner on your gift list, with advice, insight, tips and resources for a boost to business success.

## 1. **Good to Great: Why Some Companies Make the Leap and Others Don't** - by Jim Collins

Can good companies, mediocre companies, or even bad companies achieve enduring greatness? That is the question Jim Collins answers in this book. He shares his extensive research that reveals what it is that makes top companies tick.

## 2. **Drive: The Surprising Truth About What Motivates Us** - by Daniel H. Pink

In this book, author Daniel Pink asserts that the secret to high performance and satisfaction -- at work, at school, and at home -- rests with the human need to direct our own lives, to learn and create new things, and to do better by ourselves and our world. It's a great book for getting realigned with your priorities in business and in life.

## 3. **Think And Grow Rich** - by Napoleon Hill

As one of the best-selling self-help books of all time, first written in 1937, Napoleon Hill continues to challenge readers to improve their lives -- and their businesses -- through positive thinking. It's a "success" classic, and a must-read for all entrepreneurs.

## 4. **The E-Myth Revisited** - by Michael Gerber

In this book, Michael Gerber dispels the myths surrounding starting your own business by walking you through the steps in the life of a business. This book will help you grow your business in a predictable and productive way.

## 5. **The Tipping Point** - by Malcolm Gladwell

Malcolm Gladwell explores tipping points -- the exact moment an idea, trend, or social behavior crosses a threshold, tips, and spreads like wildfire -- and how they can change the way business owners should think about selling products.

## 6. **The 7 Habits of Highly Effective People**

- by Stephen R. Covey

If you are exploring personal change and are interested in a holistic approach to solving personal and professional problems, this book should make it on your list. In the book, Stephen Covey reveals a step-by-step pathway for living with fairness, integrity, honesty, and human dignity.

## 7. **How to Win Friends & Influence People**

- by Dale Carnegie

Good relationships are the foundation of a successful business, and that's what makes this book a great read for small business owners. You'll learn techniques for enhancing both professional and personal relationships while increasing your self-esteem.

## 8. **Delivering Happiness: A Path to Profits, Passion, and Purpose** - by Tony Hsieh

In this book, Zappos CEO Tony Hsieh shares the different lessons he has learned in business and life, from starting a worm farm to running a pizza business, through LinkExchange, Zappos, and more. It's an interesting, relevant and inspiring book for all entrepreneurs.

## 9. **Steve Jobs** - by Walter Isaacson

This book is based on more than forty interviews conducted with legendary entrepreneur Steve Jobs over two years - as well as interviews with more than a hundred family members, friends, adversaries, competitors, and colleagues. There are lessons to be learned on every page.

## 10. **Getting Things Done: The Art of Stress-Free Productivity** - by David Allen

Small business owners know better than anyone how hard it can be to find and maintain high levels of productivity. In this book, David Allen shares the secret to increasing productivity: being able to relax. And he outlines a system that will help you achieve it.

*Seasons greetings and happy reading!*