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It is our great pleasure and honour to welcome you to our first Weston, Woodley & Robertson e-Newsletter. This enhancement to our existing newsletter provides us with an exciting way to communicate insightful and relevant articles, practical and useful ideas, and developments within our firm and affiliates, as well as keeping in contact with you; our valued clients and business associates, on

a regular basis. We welcome you to refer this newsletter to a family member, friend or associate or anyone you feel may benefit.

To refer the newsletter, simply click on the **"Refer Colleague"** button on the main tool bar.

With the recent Federal Election and the resultant change in government we are expecting a change in policy and direction for the economy overall. On the tax front, the Coalition has indicated that there might be as many as 60 proposed changes to legislation that will impact both large taxpayers and small and medium enterprises; some give and some take. Either way, it is going to be a very busy period leading up to the next Federal budget in May 2014.

On the office front, Australian delegates, including those from our office, will be travelling over to Rotterdam The Netherlands later this month to attend the 2013 GMN International Annual Conference; the conference represents an excellent opportunity for our office to connect with our overseas affiliates and enhance our and your perspective of the global landscape. We also take this opportunity to congratulate Elizabeth Wong on her recent appointment to the Institute of Chartered Accountants Young Professionals Panel. Elizabeth is a manager with over nine years service with Weston, Woodley & Robertson. The Panel represents primarily CA members under the age of 35 and liaises with the main ICAA Board in relation to matters concerning the profession and business as a whole. Cameron Johnstone, our managing partner, continues in his role as State Councillor for the ICAA. These appointments enable us to stay up to speed on developments which impact our clients day to day affairs and give our office and you a voice in the business community.

We are continuing to trial and roll out software platforms which continue to improve the manner both our office and our clients do business. We have also been undertaking training in relation to preparation of the 2013 income tax return forms; this year sees a record amount of alterations since the forms became electronic. As a result, additional information is required to be sourced from clients.

The extended office family has grown larger in recent months with two staff celebrating the arrival of firstborns. Staff have also been involved in fundraising campaigns on behalf of some worthy charities and been engaged in some team events organised by the ICAA.

We trust you will find the articles and announcements included in our e-Newsletter valuable and a respected source of information for you. Please feel free to contact our office in relation to any of the articles or announcements; feedback is always warmly received.

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City2Surf 2013



In August 2013, Joe Ciccio and his team entered the City2Surf, raising in excess of \$6,000 for Endometriosis Australia. Many thanks to friends, family and clients who generously donated to this worthy cause.

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Tax Office to Start Div 293 Tax Assessments in January 2014



The Australian Tax Office plans to issue assessments for the new Div 293 tax in January for taxpayers who earn more than the high income threshold. Any tax due generally must be paid 21 days after receiving the notice of assessment.

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You May Have to Pay Taxes as You Go



Tax payments may have to be paid in instalments if income from business or investments exceeds a specified threshold. The Tax Office will let you know if you can pay as you go in a letter that includes other information you need to avoid penalties and to make elections that suit your tax needs.

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Timely Opportunities

Have Clear Plans When You Invest in Property



Property investors should have clear intentions at the time of the acquisition about what they plan to do with their investments. Documentation helps, but it is more critical that the investors' behaviour and actions during the ownership period are consistent with their original intentions, whether documented or not. Here are details of a recent case that highlights the importance of capital vs. revenue intentions with property purchases.

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Timely Opportunities

Tax Alert: Beware of Trust Schemes Aimed at Avoiding Capital Gains Tax



The Tax Office warned taxpayers that it is reviewing arrangements where trusts funnel large losses to newly formed corporations. Those companies do not have the cash to pay the tax due and are liquidated to avoid paying taxes. Read on for more about this Tax Office warning.

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Sort Out the Income You Must Lodge on Your Tax Return



Australia taxes most of the worldwide income of its residents, from wages and salary to interest to Workers' Compensation payments. The rules can be complicated and misunderstood. Here is an overview of what types of income residents must declare to the Australian Taxation Office.

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Goods and Services Tax (GST)

Avoid the ATO's Hit List of GST Errors



Mistakes often creep in when businesses pay GST or lodge claims for GST credits. This is not surprising, given the complexity of the rules governing the sales tax. Here is a list of some of the most common blunders or omissions the ATO has spotted and looks for and a brief look at the role your business's accounting methods play in filing claims and making payments.

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City2Surf 2013

Weston, Woodley & Robertson are proud to support [Endometriosis Australia](#) which is a nationally accredited charity that endeavours to increase awareness about endometriosis in Australia, provide education, and help fund endometriosis research.

As part of this support, Joe Ciccica and his team of 5 staff members entered the City2Surf and raised in excess of \$6,000 for Endometriosis Australia. Our thanks go to everyone who generously donated.



Joe's team looking fresh before the race

The Story Behind The Race

After many years of idle talk about participating in the City2Surf, the gauntlet was thrown down when the youngest member of [Joe Ciccica's](#) team disparaged the ability of more seasoned staff to complete the race. Before we knew it, the whole team had been roped into entering the race.

In preparation for the 14km race, each staff members followed their own training regimes, ranging from lunch time sessions, to dedicated evening runs. The hard work paid off, with half the team finishing in under 90 minutes. Stephen Golding was the first of the team to cross the finishing line, with Joe not too far behind. The girls finished in just under 1 hour and 50 minutes - a much better result than the anticipated 2-3 hours.



Everyone made it to the finish line!

Joe's team had a great time on the day, and it is likely the event will involve staff across the whole firm next year.

Tax Office to Start Div 293 Tax Assessments in January 2014

The Tax Office will start issuing the first assessments for the new Division 293 tax in January 2014 for individuals earning more than the \$300,000 high income threshold for the 2012-13 financial year.

The Tax Office will determine liability for the tax by adding an individual's income for surcharge purposes to low tax contributions. If the total exceeds \$300,000, individuals are liable to pay an additional 15 percent Div 293 tax on their "low tax contributions" (essentially concessional contributions).

Div 293 tax debts generally need to be paid 21 days after receiving the notice of assessment, although part of the tax may be deferred. Deferred debts are attributed to defined benefit accounts and do not need to be paid until the end benefit is taken from defined benefit funds. There are no additional requirements for Self Manage Superannuation (SMSF) annual returns in respect of this tax.

The first payments of the government's low income superannuation contributions (LISC) of as much as \$500 are likely to be made to super funds from September 2013 for members who have lodged their 2012-13 tax return before then.

The Tax Office also released Taxation Ruling TR 2013/5: When a superannuation income stream commences and ceases.

The ruling sets out the Commissioner's final views on this issue, which affects when a superannuation income stream is payable. The beginning and end of an income stream is relevant for a superannuation fund to qualify for a tax exemption on assets set aside to pay current pensions. It also affects the tax treatment of member benefits.

A superannuation income stream (eg an account based pension or transition to retirement income stream) may start before the due date of the first payment, depending on the rules governing the stream. However, the commencement day cannot precede the date of the member's request or application. The ruling states that a superannuation income stream ends as soon as the member receiving the money dies, unless a dependent beneficiary is automatically entitled to receive an income stream.

An income stream also ends if the minimum annual pension amounts are not paid in an income year, or when a member's request to fully commute their entitlements to a lump sum takes effect. However, an income stream does not cease when a member (or dependant beneficiary) applies to "partially commute" some of their entitlements to a lump sum. When that happens,



the member may make an election for the payment of the partial commutation to be treated as superannuation lump sum (instead of an income stream benefit). The election must be made before the partial commutation payment is made for it to be treated as a lump sum.

This ruling applies from 1 July 2007. However, the Commissioner said he will not take compliance action in respect of a superannuation income stream that ceased on the death of a member before the 2012-13 income year. Further, a partial commutation payment made before 31 July 2013 is deemed a superannuation lump sum, unless the person has treated the payment as a superannuation income stream benefit.

The Tax Office later flagged the following concessions not mentioned in the initial ruling.

- If a fund fails to meet the pension rules in an income year, TR 2013/5 states that the pension will have been taken to have ceased at the start of that income year. The Tax Office said that there are limited circumstances in which the Commissioner will exercise his powers of general administration (GPA) to allow a pension to continue despite a failure to pay the minimum pension amounts for an income year.
- The ruling also states that a pension ceases as soon as a member in receipt of the pension dies, unless a dependant beneficiary is automatically entitled to a reversionary pension. However, the Ruling does not refer to the recent legislative amendments that seek to ensure that where a member was receiving a pension immediately before their death from 1 July 2012, the fund will continue to be entitled to apply the exempt current pension income (ECPI) provisions until the death benefits are cashed.

SMSF Determination: Partial commutation of superannuation account based pension

This determination states a payment made as a result of a partial commutation of an account based pension (other than a transition to retirement income stream) counts towards the minimum annual pension payment amounts, unless the partial commutation payment is rolled over within the superannuation system on or after 6 June 2009. This refers to the total of payments in any year (including under a payment split) but, since 6 June 2009, excludes amounts that are rolled over.

Consistent with the view in Taxation Ruling TR 2013/5, the Commissioner considers that a partial commutation payment is a lump sum and counts towards the minimum pension amounts regardless of whether the payment is made in cash or in specie. However, the Tax Office says that a payment made as a result of a full commutation cannot count towards the minimum annual pension amounts as the account based pension ceases before the full commutation payment is made.

You May Have to Pay Taxes as You Go

Companies, trusts, superannuation funds, sole traders and large investors are generally required to use the pay as you go (PAYG) instalment tax system.

This method of tax payments calls for quarterly during the income year that are credited toward your business's expected tax liability. Starting 1 January 14 all large entities in the PAYG instalment system will have to pay monthly. The instalments will be phased in according to a business's annual turnover.

The Tax Office sends out letters to your business that include your expected tax bill and the year that was used to calculate the amount. The letter will stipulate:

1. Your PAYG instalment rate. This is a percentage that approximates the tax payable on your business and investment income. The Australian Taxation Office calculates the rate from information in your latest income tax assessment. The tax office tries to set the rate fairly close to your actual tax liability. The instalments are credited against your tax liability and that determines whether you will owe more or receive a refund.

2. Your tax on business and investment income. The ATO will provide you with instalment amounts based on your latest income tax assessment. If you lodge a new tax return or amend your latest return, these amounts may be different to the amounts printed on your activity statement.

PAYG Instalment Adjustments

The ATO adjusts the PAYG instalment amounts each year using a formula that takes into account the expected growth in the economy.

This is known as the Gross Domestic Product (GDP) adjustment and is based on data published by the Australian Bureau of Statistics. The GDP adjustment method is available to individuals,

multi-rate trustees, eligible small business entities as well as companies and certain super funds with \$2 million or less of instalment income for the previous income year.

The GDP adjustment is worked out using information from earlier years. The ATO says this means it may not match current economic conditions.

When economic growth slows, the GDP adjustment may seem relatively high, while in conditions of sudden economic growth, the GDP adjustment may seem relatively low.

While you can seek to vary your instalment amount but there are penalties if taxpayers vary their PAYG instalment amount down and end up paying less than 85 percent of the tax they should have paid on their business and investment income.



Although the tax office determines the instalment rates, you can choose whether the amount you pay is based on:

- The instalment rate multiplied by your quarterly income; or
- An amount determined by the tax office.

The second option can present a problem. As the amount is based on your historical taxes, it may not reflect your current situation. The advantage is that you don't have to spend time calculating your income for each instalment. Whichever option you choose, you must stick with it for the entire income year.

There is some flexibility in modifying your obligations. You can vary the instalment amount if you estimate your income and the tax on it and determine that the ATO calculation would require you to pay more than your expected tax for the year. This flexibility can be particularly useful in managing liquidity needs.

3. Your payment schedule. PAYG taxes are generally paid quarterly and, starting in 2014, monthly, phased in according to turnover. The new instalment system is being extended to cover all large entities including trusts, superannuation funds, sole traders and large investors. This new arrangement is expected to be completed for the calendar year starting 1 January 2017. Some primary producers and special professionals still may be able to pay semi-annually.

If you want to change your instalment amount you must provide the ATO with a reason. The following table lists the reasons the ATO generally accepts as circumstances that can significantly change your tax liability:

Investment change	You have changed your investment strategy or policy.
Current business structure not continuing	Your current business has stopped trading or you have changed its structure.
Change in trading conditions	Unusual transactions or expenses, such as buying major equipment.
Business restructuring	You change the structure of your business. For example, you could expand or contract your organisation's operations and significantly change your tax obligation in the process.
Change in legislation or product mix	Changes in the law or the products your business sells that have a major effect on your tax.
Domestic or foreign financial market changes	This reason generally applies to businesses whose income is affected by changes in financial products, for example, banks, finance and insurance businesses.
Use of income tax losses	You will be using income tax losses, including capital losses transferred from another entity.

Consult with your adviser before modifying instalments. Interest penalties can apply when the sum of quarterly payments for the tax year end up being less than the amount of tax owed by a sufficiently wide margin.

Have Clear Plans When You Invest in Property

If you plan to invest in property, you need to be crystal clear about your investment intentions from the start if you want to stay on capital account, rather than revenue account, and within the CGT system. On top of that you must keep clear and orderly records and carefully manage your activities.

The important distinction between revenue and capital was brought into focus when the Full Federal Court dismissed an appeal of an FTC decision. In that earlier case, Nicholas J of the FCT held that gains made on the sale of shopping centres and other properties were made on revenue account and not on capital account because the investors had a substantial profitmaking intention on resale. The decision is key because it was made despite the fact that the properties had been held for between four and 10 years and had been leased for much of that time (*August v FCT* [2012] FCA 682).



Background

The dispute arose shortly after September 2006 when the Tax Office began a tax review of Mr. Peter August and his related entities because Mr. August had not lodged an income tax return since 2002. Mr. August and his wife, Helen (the appellants) each held 50 percent of the issued units in the Toorak Unit Trust. They were also the sole directors and shareholders of Toorak Management Pty Ltd, the sole trustee of the trust.

The trust acquired a number of adjoining properties in the Canberra suburb of Melba between late 1997 and the middle of 1999. The trust had construction work performed on the Melba properties before leasing them. Some years later, in early 2007, the trust sold the properties for \$2.33 million, making a significant profit.

The trust was also a party to a syndicate managed by Dimensional Developments Australia Pty Ltd. Mr. August was a shareholder and director of that company.

In November 2001, the Dimensional Developments syndicate purchased a portion of the Hume property for \$800,000. Dimensional Developments then sold the property to Optus Networks Pty Ltd in late 2005 for \$5.5 million, inclusive of GST.

The issue brought before the Federal Court related to the profit or gain associated with the sales of the Melba shops and the Hume property. Toorak treated the gains as discounted capital gains. Mr. August asserted that his intention when acting as director of the trustee of the Toorak Trust and Dimensional Developments had been to create a long-term investment portfolio of properties. He stated that the sales occurred only when the prices offered were too good to refuse. However,

the Commissioner assessed the gains were ordinary income to which the 50 percent CGT discount did not apply.

Nicholas J of the FCT was not satisfied that the properties were acquired as long-term investments. Rather, he decided that the properties were acquired as part of a profit-making scheme with the principal, or substantial, intention to develop them, lease them and ultimately sell them for a profit. Thus, he concluded, the gains or profits were ordinary income.

In reaching this decision, Nicholas J indicated that the testimony of Mr. August and of corroborating witnesses was unreliable. Nicholas J also rejected the authenticity of an addendum to the Dimensional Developments Syndicate Deed, ostensibly created on 11 August 2001, which stated that the objective of the syndicate was to "create a long-term investment portfolio of predominantly commercial and industrial properties".

The judgment was also influenced by Mr. August's association with a close friend who had a track record of property development. This friend had advised Mr. August on how to build his investment property portfolio.

Issues on appeal

The appellants' principal argument in their appeal before the Full Federal Court was that the trial judge erred in law because he focussed on purpose or intention and overlooked the fact that to be income according to ordinary concepts there must also be a scheme or business operation or commercial transaction. In relation to the Melba shops, the appellants said there never was any scheme and in relation to the Hume property, the property was sold to Optus after the scheme alleged by the Commissioner had been abandoned.

The Commissioner accepted that a scheme or business operation or commercial transaction was an element of the test, but submitted that the trial judge had both stated and applied the test correctly. The full court agreed with the Commissioner and rejected the appellants' arguments.

The appellants also argued that the trial judge made a number of errors of fact in relation to the reliability of witnesses and in concluding – by reference to the objective evidence – that the profit or gain made on the sale of the properties was income according to ordinary concepts. They attempted to bolster their case by seeking an order that they be permitted to adduce further evidence consisting of expert reports and documented correspondence relating to the authenticity of the addendum to the Syndicate Deed.

The full court rejected the challenge to the trial judge's conclusions in relation to the facts. The full court found there were no grounds to allow new evidence because that evidence was inconclusive and it was not clear whether it would have produced a different result if it had been available at the trial.

Ramifications for property investors

Many property investors find that their investment stands part way in a continuum between revenue and capital. They may acquire property with a primary intention to lease, but in the back of their mind there is often an intention to ultimately make a gain by selling the property. The existence of such a profit-making purpose can lead the gain on sale to be on revenue account even if it was not a dominant purpose of the investment.

However, that profit-making purpose must be a substantial (or a not insubstantial) one to provide the Commissioner an opportunity to challenge the nature of a gain or profit. The existence of any significant development activity will make the Commissioner's task much easier.

Accordingly, it is important that property investors have a clear intent at the time of their investment. Documentation helps, but it is more critical that the investor's behaviour and actions during the ownership period are consistent with the investor's original intent, whether documented or not. The Tax Office and the courts will look far beyond the investor's representations and documented intentions. In each case they will consider all the facts and circumstances relevant to determining the original intent of the investor, such as:

- how the taxpayer initially financed the property;
- the viability of the investment if it is held in the long-term as opposed to being sold; and

- any level of involvement in improvements or development for sale as well as the extent of those improvements or developments.

While there is no reason why you cannot change your investment intention, if you initially intend to hold a property on capital account consult with your adviser to help ensure you take every precaution to ensure there is no room for the Commissioner or a court to come to a different conclusion.

Tax Alert: Beware of Trust Schemes Aimed at Avoiding Capital Gains Tax

The Tax Office issued an alert cautioning taxpayers that it is aware of artificial tax-avoidance schemes where discretionary trusts and newly incorporated companies collude in a scheme to avoid income taxes.

Broadly, the Tax Office says these arrangements concern situations where a trust has generated a small amount of income and a large capital gain during the year. Trust distributions are then made in such a way that one beneficiary receives the funds generated from the capital gain, tax free, while another beneficiary (being a newly incorporated company) incurs the tax liability attached to that gain.

According to the ATO, the newly incorporated company receives no funds from the capital gain to pay this tax liability, and is wound up to avoid payment of tax and specifically the large taxable capital gain. In particular, the Tax Office notes that these arrangements may contain all or some of the following features:



- a discretionary trust is involved where all the members are in the same family group and one member of the family controls the trust;
- trust income in the trust deed is defined as the trust's taxable income, unless the trustee determines otherwise;
- the trustee sells a capital asset during the income year that results in a capital gain and the trust also derives a small amount of ordinary income;
- a newly incorporated company is made a beneficiary of the trust and is controlled by a member of the family group;
- the trustee then exercises its power under the trust deed to determine that the capital gain is excluded from trust income, and to distribute all of the remaining trust income to the newly incorporated company;
- the newly incorporated company consequently is entitled to receive the small amount of ordinary trust income, but is also assessed on the trust's entire taxable income (including the capital gain);
- the company has no capacity to pay its tax liability and a liquidator is appointed to wind it up; and

- the trustee makes a capital distribution to a family member in the following income year that is equal to the capital gain.

The Tax Office says it is concerned that arrangements of this type may be a sham and may constitute a scheme to which the general anti-avoidance rules of the *Income Tax Assessment Act 1936* may apply. It says taxpayers should also note that the income may be assessable to any entity involved in the arrangement and their associates.

In addition, the Tax Office notes that any entity involved in the arrangement as a promoter may be subject to civil and criminal proceedings under the *Taxation Administration Act 1953*.

However, the Tax Office says that where taxpayers have already sought advice in the form of a private ruling on their trust arrangements, they may rely on the private ruling. The Tax Office does, however, remind taxpayers that private rulings only apply to the particular entity identified in the ruling, the particular scheme described, and the particular years identified.

Sort Out the Income You Must Lodge on Your Tax Return

Broadly speaking, if you are a resident of Australia, you must annually lodge an income tax return and pay annual taxes on worldwide income from many sources.

If you are lodging directly, the deadline is October 31 for the previous tax year ending on June 30. If the deadline falls on a weekend, you can lodge on the following Monday without incurring a penalty. Taxpayers who lodge through tax agents should check with them for their deadlines, which vary. You must, however, contact a tax agent by October 31 if you are using one for the first time or are switching to a new one.

Here is a list of the most common sources of income you must report to the Australian Taxation Office (ATO).

Employment

With some exemptions, you must declare all income generated from employment. The most common types of employment income are:

- Salary, wages and tips;
- Allowances from your employer, such as a car allowance; and
- Lump sum payments. Concessional treatment may apply, such as when you receive termination payments.



Pensions, Annuities and Government Payments

- Pensions, which are series of superannuation income streams, generally have both a taxable and a tax-free component.
- Annuities – a series of payments typically purchased with a lump sum from a life insurer - also contain taxable and non-taxable elements.
- Government payments include payments such as age pensions and youth allowances.

Some government payments are subject to income tax while others are not. For example, disability support pensions can be taxable or exempt depending on, among other things, the age of the recipient.

Interest, Dividends and Rent

Interest income is generally taxable. For example, if you put money into a savings account for your child, you may need to declare interest earned on that account. Life insurance bonuses are also taxable.

If you own shares in a company, you must declare all assessable dividends paid or credited to

you. You may receive dividends as cash or bonus shares from listed investment companies, public trading trusts, corporate unit trusts and corporate limited partnerships as a distribution. If you are paid or credited with bonus shares, the issuing company should provide you with a statement indicating whether the stock qualifies as a dividend. Payouts are assessable income in the year they are paid or credited to you.

Australian resident company dividends are taxed under a system called "imputation." The tax the company pays is "imputed" to the shareholders as franking credits attached to their dividends. Depending on your financial circumstances, you might be able to use those credits to offset other tax liabilities.

Rent and rent-related payments are taxable. As an example, money from a bond associated with a lease is taxable if you received it because a tenant defaulted. Other rent-related payments may have to be declared on your income tax return.

Capital Gains

Australia does not have a separate capital gains tax. Gains are simply added to your ordinary taxable income.

Capital gains typically result from the sale of assets, such as real estate, shares or managed fund investments. The gain is the difference between what you paid for the property and the amount you received when you sold it. There are, however, many other ways to generate capital gains. Complex rules govern when gains may trigger a tax obligation, which often depends on the type of asset.

Foreign Sources

If you qualify as an Australian resident, you are taxed on worldwide income. That means you must declare all income from sources outside the country, such as foreign pensions and annuities, foreign employment income, and capital gains on the sale of foreign assets.

Foreign income may also be taxed in the country from which the income is sourced, and that could result in double taxation. However, Australia has tax treaties with more than 40 countries, including all of its major trading partners, that minimise or eliminate double taxation.

Residency requirements are complex, so if you are not sure of your tax status, consult a professional.

Partnerships and Trusts

You must pay income tax on your share of a partnership's net income and, generally, on trust income you receive as a beneficiary.

Compensation and Insurance

If you lose salary, you may have to declare money you receive from an income-protection scheme, such as Workers' Compensation or accident insurance. Compensation received for a personal injury caused by others, the payments may be tax-free if certain conditions are met.

Tax-Free Payments

Some payments are not taxable. For example, some Australian government pensions, allowances, first-home saver account government contributions, superannuation co-contributions, child support and spouse maintenance payments are all tax-free.

Income tax regulations can be very complex in some situations so consult with your tax adviser to ensure you meet all your obligations with the ATO.

Avoid the ATO's Hit List of GST Errors

GST has been around for more than a decade, but despite sophisticated accounting software businesses still make errors involving the sales tax.

The Australian Tax Office (ATO) has highlighted several of the most common mistakes. Here is a watch list of five of those errors that can help your company avoid these blunders when it lodges its activities statements.

1. Claiming credits that exceed the car limit.

When you buy a car, you can claim a GST credit of as much as one eleventh of the car limit (including GST). The car limit is \$57,466 for the 2011-12 financial year and you can claim a maximum credit of \$5,224 for cars above this limit.

The limit applies to cars or motor vehicles designed to carry a load of less than one tonne and fewer than nine passengers. The Tax Office reviews the amount of the limit annually and sometimes changes it.

2. Incorrectly claiming credits for assets used partly for private purposes.

If you purchase goods or services that you use for both business and private use, you can claim a GST credit only for the part of the purchase relating to your intended business use. So, let's assume you buy a computer for \$3,300, including \$300 GST. You intend to use the computer 60 percent

Timing Errors

Mistakes can often be made when GST credits are claimed in – or attributed to – the wrong tax period based on the accounting method your business uses.

If your company is registered for GST it can use cash or accruals basis accounting. Each of those methods specifies when your business must account for GST payable.

If your organisation uses cash basis accounting, it must:

1. Account for the GST payable on sales made in the same period it receives payment for the sale. If it receives only a partial payment in a tax period, it accounts only for the part of the GST payment that relates to that part of the sale in that tax period, and

2. Claim GST credits for business purchases in the tax period it pays for them. If it makes partial payments and has a valid tax invoice, it can claim the credit only for the part of the cost that was paid in the respective tax period.

If your company uses accruals basis accounting, it



of the time for business. You can claim \$180, or 60 percent of the GST you paid, as a credit.

must account for the GST payable and credits in either the first tax period when:

1. An invoice is issued relating to a sale or

You may later find that the actual business use differs from the intended use. When that happens, you must adjust the amount of the credits claimed.

2. A payment is received or made.

Your organisation may elect to account for the private part of the purchases annually if it:

- Has annual turnover of \$2 million or less;
- Is a small business, or carrying on an enterprise; and
- Has not opted to pay GST by instalments or report GST annually.
- Your company must make an adjustment in a later activity statement to account for the portion of the purchase relating to private use. It can make the adjustment in any activity statement up to the one that covers the due date for lodging your income tax return. This means you can apportion for private use for both GST and income tax purposes at the same time.

3. Claiming credits for tax payments to contractors or suppliers not registered for GST.

This is not allowed. If the contractor or supplier is not registered, or required to be registered, GST should not have been included in the price you paid.

4. Erroneously claiming credit for imported goods.

Businesses cannot claim GST credits for goods brought into the country unless they are the registered importer. If your business is a GST registered importer, it can apply to defer paying GST liability until the first activity statement lodged after the goods are brought into the country. To participate in this deferral scheme your business must:

- Have an Australian business number (ABN).
- Be registered for GST.
- Lodge business activity statements online (if your company is a non-representative member of a GST group, then the nominated representative must lodge these statements online).
- Lodge or plan to lodge activity statements monthly. If your enterprise currently lodges quarterly, it can change to a monthly basis, but the change will not take effect until the start of the next quarter.
- Be up to date on tax-related returns or payments. This applies to all members of GST groups, GST branches and GST joint ventures.
- Lodge activity statement payments electronically.

In addition, neither you nor any relevant persons can have been convicted or penalised by a court in the past three years for offences related to taxation, customs, misdescription of goods, trade practices, fair trading or defrauding the Australian government.

5. Missing adjustments for price discounts.

If your business accounts for GST on a cash basis and gets a discount price from a supplier that is not noted on the invoice, it must use the discounted price when calculating its claim for GST credits.

If your business uses a non-cash, or accruals, basis and it claimed the GST credits in a previous activity statement, it must make an increasing adjustment to account for the difference between the invoiced amount and the discount. (See right-hand box for an explanation of how accounting methods affect when to claim GST credits.)

When a company claims too much in GST credits, it must repay them and it may face a general interest charge or penalties.

Consult with your adviser to help ensure that your business does not make any of these and other common mistakes when it pays GST or claims its credits.