

# NEWSFLASH

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Welcome to the BAN TACS News Flash. Our aim is to provide short but succinct updates on all tax issues

## What Piggy Backed on the Repeal of the Mining Tax? This Affects Small Businesses, Workers and Families

Everyone but very high income earners and mining companies will be hurt by the taxation changes that snuck in with the three word slogan “Scrap Mining Tax” back dated to 1<sup>st</sup> July, 2014. Apparently Abbott had a mandate! So who voted for the following?

**Workers** - Compulsory superannuation contributions made by employers will stay at 9.5% of ordinary time earnings, until 2020/2021. The low income superannuation contribution was intended to encourage low income earners to make superannuation contributions for themselves and compensate them for the fact that the 15% tax going into the fund may well be a disincentive because of their low personal tax rate. This will be abolished, meaning that there are far greater tax incentives for high income earners to contribute to superannuation. Clive Palmer managed to delay this taking affect until after the 2016/17 financial year. This is after the next election giving voters a chance to say what they think.

**Families** - Similarly, the repeal of the School Kids Bonus has been delayed until 31<sup>st</sup> December, 2016 in the hope it will become an issue for the next election.

The income support bonus payment will be abolished from 31<sup>st</sup> December, 2016 unless saved by an election.  
**Small Business** - Companies will no longer be allowed to carry back losses to offset against the income of past years. This applies retrospectively to cut out at 30<sup>th</sup> June, 2013

All small businesses will no longer be allowed an immediate write off for plant and equipment costing less than \$6,500. The threshold will be dropped to \$1,000. This means that any equipment businesses buy that cost more than \$1,000 will have to be placed in a depreciation schedule and written off over time. The immediate write off for the first \$5,000 spent on motor vehicle has also been removed. Both of these measures will apply retrospectively back to acquisitions after 31<sup>st</sup> December, 2013.

## Noel Whittaker's Column

The journey to retirement has just got a lot longer if you're going to depend on the age pension. Above all, you need to understand how compound interest works. To put it simply, how much you will have at the end of a given period depends on the amount invested, the earning rate, and the length of time of the investment. If the time is short, the rate matters little – the increase in the final benefit grows exponentially.

If you invest \$1000 a month at 3% for two years, you will end up with \$25,000. Increase the rate of return to 8% and the final balance is just \$26,000. Because the term is short, the rate doesn't really matter.

However, if we extend the term to 30 years, \$1000 a month at 3% would grow to \$600,000, and at 8% \$1.5 million. Take the term to 40 years and the numbers become \$926,000 and \$3.5 million. Remember, if you're aged 40 now you've almost certainly got at least 50 years of investment ahead of you. Being too cautious, or not getting around to starting, could cost you millions.

No doubt the government's advisers were aware of the mechanics of compounding when they reduced the rate of increase of the age pension. Currently, increases are linked to average weekly earnings, but from 1 September 2017 the rate of increase will be linked to inflation.

Now let's run some numbers based on the assumption that average weekly earnings are running at 4% and inflation at 2.5%, and the couple's full pension now is \$30,000 a year. In 10 years at 4%, the pension would have risen to \$45,000 a year – at 2.5% \$38,000 a year. In 20 years at 4%, the pension would be \$67,000 a year, but at 2.5% just \$49,000 a year. It is not going to make much difference in the short term but, thanks to the way compounding works, the difference will be huge in the long term.

The government is going to use its knowledge of compounding to slow down the rate of growth in the age pension in an attempt to keep the system sustainable. It's up to all of us to use our knowledge of compounding to start investing at an early an age as possible and get the best return we can achieve on our investments. If we fail to do this, the outlook may be dismal.

*Noel Whittaker is the author of Making Money Made Simple and numerous other books on personal finance. His advice is general in nature and readers should seek their own professional advice before making any financial decisions. Email: [noelwhit@gmail.com](mailto:noelwhit@gmail.com).*

## Income Insurance

This year I am seeing a lot of clients who have been talked into holding their income protection insurance inside their superannuation fund.

Income protection insurance is intended to replace your income when you can't work due to sickness or injury. If all of your income protection insurance is held in your superannuation fund, the insurance company will pay the superannuation fund but depending on your injury or illness the superannuation fund may not be permitted to pay this out to you..

Income protection insurance is tax deductible so you may consider simply owning the policy yourself and stay clear of your superannuation fund. Alternatively, you may prefer to insure through your superannuation fund to utilise your employer's superannuation contributions to cover the premiums. With professional advice you can organise a policy that carefully combines contributions from your superannuation fund and you personally, to make sure you are fully covered and able to access the payout.

How do I know this? Because Tony told me. Tony Townsend is our preferred insurance advisor and he has recently helped out a client who was caught in this situation. There is no cost to you for his services so please give him a call on (07) 54505039 to check that you are really covered.

## Travel and Meal Allowance Concessions

If you are paid an overtime meal allowance under an industrial instrument or a travel allowance when you are required to sleep away from home overnight the ATO will allow you to claim expenses against that allowance without receipts providing the amount is within its reasonable guide lines and you have spent that much. That is right, you don't need receipts but you still need to prove that you spent the money! At least that is what the ATO say in their ruling but the legislation is a bit more reasonable than that. Sections 900-60 regarding overtime meals and 900-50 regarding travel allowances use the following words:

“The Commissioner considers reasonable the total of the losses or outgoings you claim that are covered by the allowance.”

These reasonable amounts are set out in an ATO ruling each year. Here is the link to the ruling for the 2014/2015 financial year

<http://law.ato.gov.au/atolaw/view.htm?docid=%22TXD%2FTD201419%2FNAT%2FATO%2F00001%22>

Further protections from the ATO exploiting the reasonable amount are found in section 900-195 which states that regardless of all the substantiation rules if it is obvious you incurred an expense, not complying with the letter of the law will not prevent you claiming the deduction. An example of this would be not receiving a travel allowance and not keeping receipts but being away from home for 5 nights for work purposes. Obviously you ate something so even if they only allow \$5 a night for a bag of chips you are entitled to something and this will add up if you are an interstate truck driver.

Section 900-200 also says that if you didn't keep receipts because you honestly thought that the travel or meal allowance exemption applied to you then the ATO catching you out on a technicality will not prevent you from being able to claim.

Now these “reasonable amounts” are quite substantial. For example the amount for overtime meals is \$28.20, around \$100 for meals while travelling and depending on the area between \$100 and \$200 for accommodation, per night. Truck drivers on the other hand are considered to sleep in their trucks so must produce receipts if they want to claim accommodation but are entitled to \$93.40 and \$101.85 per night for meals depending on their pay grade.

If you are a truck driver who is away from home most nights and is paid maybe \$60 per night in travel allowance, claiming that extra \$33.40 per night for say 200 nights of the year would mean an extra deduction of \$6,680 which will easily increase your tax refund by more than a couple of thousand dollars! Even the overtime meal allowances pay handsomely. In Mackay 10 to 12 hour shifts are the norm with many tradespeople receiving \$10 per night in overtime meal allowances for all 5 days of the week. The \$10 allowance is included as income but \$28.20 claimed as a tax deduction, a difference of \$18.20 for 5 nights times 52 weeks equals \$4,372 extra tax deduction. Your employer is not required to include these allowances on your PAYG summary if they consider them to be fully expended so you will need to keep all your payslips so these amounts can be calculated. When it comes to an overtime meal allowance you can stop and have a meal at a tavern on your way home after the shift. Ideally keep at least a couple of receipts to show a typical meal cost.

Naturally enough the ATO is attacking this area with total disregard to the wording of the legislation, bullying taxpayers out of their deductions unless they want to face the ATO and its unlimited taxpayer funded legal power in the courts. So despite the law being on your side, the reality is you really need to keep some records.

Here are some of the hot spots:

- 1) Make sure your employer pays you a bona fide allowance ie an amount that could be considered to be enough to cover your costs. In TR 2004/6 the ATO says if you are only receiving \$5 per night that is not enough to live off so even if it is called a travel allowance they would not treat it as one. In *McIntosh v FC of T*, the ATO argued that even though the employee in that case had received an amount of approximately \$39 per day as an allowance as it did not cover his full expenditure of \$60 per day it was not a bona fide allowance. Fortunately the ATO lost but gives you an idea of how little consideration they give the clear wording of the legislation when it suits them.
- 2) Keep some receipts to give an example of the typical amount you would spend. In *Fardell v FCT* the long distance truck driver lost his claim for nearly \$20,000 a year in meal expenses. The ATO threw everything they could at him like expecting him to produce menus from the places where he ate.

- 3) Make sure that your employer clearly states what the allowance is intended to cover and that you can show how you worked out how many nights it applied to. In Gleeson's case, truck driver's allowance was actually calculated on a kilometre basis as a method of convenience. Fortunately for Gleeson the paymaster vouched for him and he won this case but it was based more on how convincing the witnesses were than the records provided.

## Email Problems

Our email addresses were pirated by spammers so we were black listed. We now have new fancy encrypted passwords but it has taken nearly a week to complete the change over and some emails will be permanently lost. If you have not received a reply to your email, please send it again.

## Where is Julia?

Well may you ask!!!. Our Mackay office had a new small addition who had absolutely no respect for the pressure his mother would be under during the tax season. The way things took off in Mackay I would not be surprised if the turnover doubles this year. I always spend the winter months at the Mackay office but this season was far more demanding than usual. It is the first time in 15 years that I couldn't even find time to write the newsflash, much as I love doing it. Nevertheless, this speaks volumes about the respect BAN TACS has earned in Mackay despite setbacks to the mining industry.

## Skype Julia

Most of the people who have used this service to date just want to talk about their overall strategy or get a straight answer to a difficult question. It is not intended to replace your current Accountant but it is an excellent method of getting specialist advice on property from investing to developing or just a second opinion.

<http://www.bantacs.com.au/shopping.php>

## What Is New on [www.bantacs.com.au](http://www.bantacs.com.au)

Want more? Please go to [bantacs.com.au/publications.php](http://www.bantacs.com.au/publications.php) for back issues of newsflash or download our free booklets where past newsflash articles are collated according to their topic. There are over 30 topics, for example How Not To Be A Developer, Claiming Your Trip Around Australia As A Tax Deduction, Claimable Loans, Rental Properties, Overseas, Fringe Benefits Tax, Claiming a Motor Vehicle, GST etc.

With the [forum](#) and the [Ask BAN TACS Notice Board](#) the information on the site regularly change. Some very generous askbantacsers have allowed their question and answer to be placed on the notice board.

<http://www.bantacs.com.au/QandA/index.php?q=571> Granny flats & claiming interest on the land underneath.  
<http://www.bantacs.com.au/QandA/index.php?q=572> Expat with property in Australia coming back to live.  
<http://www.bantacs.com.au/QandA/index.php?q=573> Demolishing main residence to build duplex with the added complication of a divorce property settlement and a side issue of interest deductibility.  
<http://www.bantacs.com.au/QandA/index.php?q=574> Demolish PPR then duplex, rent one, CGT calculation.  
<http://www.bantacs.com.au/QandA/index.php?q=577> Problems of buying property in a company.  
<http://www.bantacs.com.au/QandA/index.php?q=580> Small business concession and inherited property.  
<http://www.bantacs.com.au/QandA/index.php?q=581> CGT if demolish main residence & build townhouses  
<http://www.bantacs.com.au/QandA/index.php?q=582> GST on shop with residential units above  
<http://www.bantacs.com.au/QandA/index.php?q=583> CGT on shares sold for divorce settlement  
<http://www.bantacs.com.au/QandA/index.php?q=585> Differences between joint tenancy and tenancy in common when one of the owners dies.  
<http://www.bantacs.com.au/QandA/index.php?q=586> Subdivision, inheritance and divorce!  
<http://www.bantacs.com.au/QandA/index.php?q=591> Claiming a caravan, vehicle and meals against wages.  
<http://www.bantacs.com.au/QandA/index.php?q=593> Moving into the rental and renting out previous home.  
<http://www.bantacs.com.au/QandA/index.php?q=600> Discusses CGT on an inherited beach house as a follow up from another more detailed question at <http://www.bantacs.com.au/QandA/index.php?q=586>

**Disclaimer:** Please note in many cases the legislation referred to above has only just passed through parliament. The full effect is not clear yet but it is already necessary to make you aware of the ramifications despite the limited commentary available. On the other side of the coin by the time you read this information it may be out of date. The information is presented in summary form and intended only to draw your attention to issues you should further discuss with your accountant. Please do not act on this information without further consultation. We disclaim any responsibility for actions taken on the above without further advice as to your particular circumstances.