GST Attack!


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Are you at risk of being one of the wounded?

It is a full three years since GST was introduced. Since July 2000 the Australian Tax Office has been the trainer and educator, but according to recent press releases their task is about to change. The trainer role is about to become the examiner role as the ATO increases officers in the GST area. The ATO have advised that the GST field staff spend 9 days out of 10 out of the office – no prizes for guessing what they are up to.

GST compliance audits are about to be rolled out in a big way. The Taxation Commissioner, Michael Carmody, claims that the new compliance program involves audits that are much more sophisticated and more carefully directed than earlier types of audits.

Having assisted clients with both internal and tax office audits, Stuart Boyers of SME Business Solutions believes that some basic housekeeping can keep most businesses out of trouble. The points below are common issues that businesses are facing on a daily basis:

Entertainment

Make sure that you do not claim an input tax credit for the non-deductible portion of entertainment expenses. If the 50/50 method is used for calculating Fringe Benefits Tax on meal entertainment benefits then only 50% of the GST input tax credits can be claimed.

Corporate Credit Cards

The ATO has issued a ruling that allows businesses to claim the GST input tax credits, with an approved credit card statement being sufficient substantiation. i.e. in place of a tax invoice.

Tax Invoices

Care should be taken to obtain compliant tax invoices, otherwise an input tax credit cannot be claimed. If the tax invoice is for $1,000 or more than the tax invoice must display the recipients name and either the address or ABN. If these details are not shown on the tax invoice then an input tax credit cannot be claimed.

Luxury cars

The GST claimable on a luxury car is capped at $5,182 for the 2003 financial year.

Deferral of GST on Imported Goods

GST is normally payable on imports at the same time that customs duty is levied. However, a special scheme allows most importers to pay the GST on lodgment of the next Business Activity Statement. This may be cash flow beneficial.

Reimbursements

An employer can claim an input tax credit once he holds the tax invoice that was issued to the person being reimbursed i.e. the tax invoice does not need to be in the employer's name.

Pre-establishment costs

A company may claim input tax credits on acquisitions made before it was incorporated (subject to certain conditions).

Commercial Property Rental Bonds

The GST paid on a commercial property bond cannot be claimed as an input tax credit until such time as the bond is forfeited or incorporated as a rental payment.

"All businesses should regard a GST audit as being inevitable. A smart strategy for every business is to hold an internal audit before the ATO strikes. This is known as a prudential audit and could cover all tax aspects of the business" said Mr Boyers.

The following questionnaire simulates a prudential audit. If you answer "No" to any of these questions then your business may not be complying with the GST regulations. If that is the case then it would be advisable to carry out a more formal internal audit.

The tax office insists that GST has become a vital weapon in its war on tax evaders. The start of the new financial year marks the full unleashing of the biggest, most sophisticated auditing and compliance program undertaken by the ATO. Michael Carmody's message is clear – non-complying taxpayers should watch out!

If you would like more information, contact Stuart Boyers or Jared Balkin of SME Business Solutions on (02) 9411 2644 or info@smebus.com.au

Question	Yes	No
1. Do you ensure that you hold a compliant tax invoice for all input tax credits claimed?		
2. Does anyone carry our a "reasonableness test" on the final GST payable before lodgment of your Business Activity Statement?		
3. Do you ensure that a reconciliation is done between your records and the final GST liability?		
4. Once the GST payable/refundable has been finalised for the period, do you ensure that no further entries are posted to that period?		
5. Have you ensured that no input tax credits are claimed for non-deductible expenses?		

The use of superannuation in retirement planning

Many business people acquire businesses and operate them with little or no thought to the future. Certainly new migrants to Australia, who are almost forced to buy into businesses to retain their visa positions, tend to give scant consideration to their exit from the business in later years.

It is ironic that it is at precisely this moment that they should be getting good advice about succession planning and how best to position themselves for an orderly exit. If the size of the business precludes this, they should look for another business, or else they are just buying a job for themselves.

Superannuation is a much-maligned aspect of Australian society. Much has been written about the losses sustained by superannuation fund members in large managed funds because of the downturn in world equity markets. However, having their superannuation administered in this way does not suit everyone's needs.

A self-managed superannuation fund allows you, the superannuant, to determine which assets should be invested where by the fund. This may include real estate, shares, bonds, and other suitable retirement assets. Within the real estate category it is possible for assets used in the company to be accumulated within the superannuation fund.

The tax concessions available to the superannuation fund include a tax rate of 10% on capital gains, and 15% on general income. But one of the major benefits is that once your fund starts paying you a retirement pension, the fund ceases to pay tax. Furthermore, you receive a tax rebate of 15% of the pension that is paid to you in retirement.

A small business concession that is often overlooked is that any capital gains that are generated on the sale of your business can be "rolled over" into your superannuation fund, rather than being taxed in your hands. This is a marvellous concession. Essentially, together with the other capital gains tax concessions on the sale of a business, no person should be paying any income tax on the sale of their business.

For a couple in retirement, with little other income to account for, a combined pension in the region of $60 000 can be achieved with no tax liability. Any income above this level is taxed at a maximum marginal rate of 33%.

Needless to say, this is a clever way to use superannuation in retirement planning.

Allen Bolaffi is Managing Partner of Haines Norton Chartered Accountants in Adelaide, South Australia. He is also a Financial Planner and Migration Agent. Haines Norton across Australia has a particular interest in assisting migrants make the transition to Australian commercial society and is the only firm that specialises in migration law and business advice.

Readers should consult their advisers to ensure that their personal circumstances are considered. The above article is not financial advice as it is of a general nature.

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