

# TAX TIME 2013

## TIPS TO MAXIMIZE YOUR TAX RETURN

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It is tax time again and for many of us this is most important time of the financial year, where we balance the money which we both owe and own. The financial year for 2012-13 has closed and everyone should be getting ready to lodge their own tax returns for this financial year.

You must do your tax return if any of the following applies to you:

- If you have paid tax under the Pay As You Go (PAYG) withholding or instalment system during the financial year;
- If you have had tax withheld from payments made to you;
- If you are a foreign resident earning income taxable in Australia and also does not have non-resident withholding tax being withheld from it;
- You have had an amount withheld from interest because you did not provide your Tax File Number (TFN) or Australian Business Number (ABN) to the investment body.

These are the most common reasons why you need to lodge your tax return, but there are also many other reasons which may or may not apply to you.

### **FIND YOURSELF A GOOD TAX ACCOUNTANT/AGENT**

A good accountant is one who works with you as a partner and not as a client. Not only can they help build your wealth and assets, but they will also have enough knowledge and experience to guide you in right way and avoid future complexities and/or legal issues. A good tax agent is the best person to advise you in all possible deductions you may legally be entitled to.

Besides the above, a good tax accountant:

- Can be trusted to manage your business and also to meet your expectations;
- Listens to learn how to help your business achieve success;
- Understands what you need in order to achieve your business goals;
- Makes things happen to clients and does not stop until he succeeds.

### **WHAT KIND OF INCOME IS TAXABLE?**

Income that you must pay tax for includes money earned from:

- Employment
- Pensions and annuities
- Most government payments
- Investments
- Capital gains
- Income from trusts, partnerships or businesses
- Foreign income

So before thinking of making any tax deductions, you must first ensure that all assessable income earned during the entire financial year 2012-13 from all relevant sources has been declared.

**Income from the following sources are not taxable:**

- Some government payments
- Child support
- The tax-free portion of your redundancy payment
- Government contributions to your first home saver account and super co-contributions

**TAX RATE 2012-13**

There has been a change in the income tax rate from financial year 2011-12 to 2012-13. However, there is no change in the tax rate for financial year 2013-14, meaning that the income tax-free threshold will remain the same at \$18,200 until financial year 2017-18.

Individual Tax Rate for Australian Residents

<b>Taxable income</b>	<b>Tax on this income</b>
0 - \$18,200	Nil
\$18,201 - \$37,000	19c for each \$1 over \$18,200
\$37,001 - \$80,000	\$3,572 plus 32.5c for each \$1 over \$37,000
\$80,001 - \$180,000	\$17,547 plus 37c for each \$1 over \$80,000
\$180,001 and over	\$54,547 plus 45c for each \$1 over \$180,000

**Note: These rates do not include the Medicare levy (usually 1.5%), or the Medicare levy surcharge (1%-1.5%).**

**KEEP RECEIPTS FOR EVERYTHING DURING THE FINANCIAL YEAR, AND ALSO KEEP ORGANIZED**

Having more deductions are key to getting more refund, and you will need all income-related expenses receipts in order to get more deductions. Your job is to keep all receipts, while your accountant will decide what is relevant and claimable and what is not.

Records show that the Tax Office wins **90 per cent** of its cases on record-keeping rather than the merit of the argument, so make sure your records are in order. The Tax Office may initially say that they believe you, and either give you the refund or charge you the tax. But they reserve the right to go back in a couple of years and ask you to prove it. They have every right to ask you to pay if you are unable to do so. As such, get organised with your record-keeping. Note that it is you, and not your accountant, who has to prove to the Tax Office the deductions which you have claimed to get tax refunds.

You can avoid headaches during tax time by keeping track of your receipts and other records throughout the year. Good record-keeping will help you remember the various transactions you made during the year, which in turn may make filing your tax return a less taxing experience.

Good record-keeping throughout the year also saves you time and effort at tax time when organizing and completing your return. If you hire a paid professional to complete your return, the records you have kept will assist the preparer in quickly and accurately completing your return.

Lastly, do not forget to declare all income sources. If you are not sure whether you have to declare a particular source of income, contact your employer to ask.

### **AVOID MEDICAL LEVY SURCHARGE**

This is an extra 1%, 1.25% or 1.5% of their taxable income depending on their income level. The Medicare Levy Surcharge is imposed on individuals earning over the threshold and who also do not have the appropriate level of hospital insurance. The threshold is \$84,000 for individuals and \$168,000 for families. You do not have to pay the surcharge if your taxable income is below the income threshold. Therefore, it would be more beneficial to have a private hospital cover rather than paying an extra 1.5% tax to the ATO. Please make a note that you can not avoid Medicare Levy, which is compulsory for every tax payer based on income threshold (Medicare Levy Threshold).

### **WORK-RELATED SELF-EDUCATION EXPENSES**

Self-education tax deduction can be claimed only if the course studied was to gain a formal qualification in your current profession, business or trade. There must be a direct connection between the course studied and your course of employment at the time of expenditure. Education expenses include formal qualifications and associated tuition fees, textbooks, stationery, travel expenses and also expenditure on conferences, seminars and self-organized study tours. Currently you would be able to claim all work-related self-education expenses up to the full amount, but proposed reforms has introduced an annual cap on self-education expenses of \$2,000 per person from 1 July 2014.

### **SMALL BUSINESS TAX BREAK**

If you are running a small business with an annual turnover of less than \$2 million and have huge or some profit which you want to avoid having to pay a lot of tax for, these tips may help you save some of your hard-earned money and also make managing positive cash-flow easier.

- Items deductible before 1 July can immediately be written off if they cost less than \$6,500 (previously \$1,000) for all depreciating assets. That's doing a big favour to your business cash flow.
- From the 2012-13 income year onwards, you can choose to use the capital allowance provisions to calculate the deduction for a motor vehicle costing \$6,500 or more that you start to use, or have installed ready to use for a taxable purpose. There is an immediate deduction of \$5000 for motor vehicle purchased plus 15% for normal depreciation (from general pool assets)

### **UPDATE YOUR MV LOGBOOK**

Keep all information in business-related logbooks and travel diaries updated frequently as this will help your claim with the ATO. If you use your car for work:

- Do you use your car to carry bulky goods or equipment used for work?
- Do you use your vehicle for work purposes?
- Are you a home-based worker?
- Do you regularly work at different sites during the day?
- Do you need to use your vehicle to travel to different offices?

Business owners can generally claim:

- Travel between business locations during the day
- Travel relating to the transport of bulky tools and/or materials to and between job sites

Even GPS systems bought and installed by the tax payer in work-related cars can be claimed as deductions.

By keeping a well-maintained log-book and record of all expenses, your tax accountant can find not just the simplest method of tax claim for you, but also the best. For example, the cents per kilometre limited to 5000 km per car method, 12% of the cost price of the car method, log book method and one-third actual expense method are just some options which can be used to calculate best tax benefit for you.

## **SUPER CONTRIBUTIONS**

From 1 July 2012, the concessional contributions cap is \$25,000 regardless of age or Super balance. Government has announced changes that, if passed by parliament, will provide an unindexed concessional contributions cap of \$35000 for

- From 1 July 2013- Individual who are 60 years old or over;
- From 1 July 2014- Individual who are 50 years old or over .

There are some changes to super co-contributions also,

- The maximum co-contribution entitlement will be \$500;
- The matching rate to be reduced to 50%, it was dollar to dollar;
- The lower income threshold will remain **\$31,920**;
- The higher income threshold will be reduced to **\$46,920**.

## **RENTAL PROPERTY**

You can claim quite a lot if you have rental property, where the amount includes depreciation on the building. Negative gearing occurs when the total expenses exceed the rent earned such that a loss is ensured. Incurred expenses can be claimed if you have rental investment property, whether already being rented out or available for rent. However, expenses which are capital or private nature cannot be claimed. There are many claimable expenses, which include but are not limited to:

- Advertising for tenants;
- Cleaning;
- Council rates;
- Insurance;
- Interest on loans;
- Land tax;
- Legal expenses;
- Repairs and maintenance;

- Tax-related expenses etc.

## **THE MOST COMMON WORK-RELATED EXPENSES**

- Business-related travel expenses;
- Union fees;
- Overtime meals;
- Attending formal education courses provided by professional recognised associations;
- Seminars, conferences or education workshops;
- Books, journals and trade magazines;
- Protective items, such as sunscreens and sunglasses;
- Computer and software;
- Telephone and home office expenses;
- Briefcases;
- Calculators and electronic organizers;
- Certificates of Registration;
- Conference and seminars;
- Dry cleaning;
- Insurance of tools and equipment;
- Internet;
- Legal expenses;
- Parking fees;
- Repairs of tools and equipment;
- Stationary, printing and postage;
- And MANY MORE!

There is no hard-and-fast rule on the kinds of claims which you can make, but as long as you have spent money for business-related purposes and have the receipts to prove it, you will be able to claim those expenses.

## **DON'T FORGET SMALL CLAIMS**

Making \$5 donations to registered charities or buying \$7 business-related magazines may seem like very small expenses, but it all adds up over time and you may claim a few hundred dollars in order to maximize your tax refund.

## **DEPRECIABLE ASSETS**

Capital assets are those that provide benefits over its effective life, so those which are used to gain assessable income can be written off over a period of time as tax deductions. Computers, electrical tools, furnishing, carpets, curtains and motor vehicles are just a few examples among the many items which you may claim as deductions.

## **DEDUCTIONS RELATED TO INVESTMENTS**

You may claim deductions against assessable interest and dividend income, if you are able to show that you have incurred fees, taxes or other expenses in earning that income. Expenses can include

account-keeping fees, interest, management fees, travel expenses, expenditure on specialized software etc.

## **MANAGING CAPITAL LOSS AND GAIN**

If you make profits from selling your investments, you are likely to have to pay Capital Gain Tax. Capital gains are usually taxed at half your Marginal Tax Rate. As such, if your Marginal Tax Rate is 37%, your capital gains will effectively be taxed at 18.5% (because of 50% discount). Any past losses can be offset against the current year's profits, and an experienced accountant will be able to help you find the best tax-effective method to apply. Similarly, when you make a capital gain in future years, you can deduct the current year's loss from the future gain.

## **TAX OFFSETS-BIG REFUND HIDDEN HERE!!**

Do not forget about tax offset, which add to your tax refund. Here are a few:

- Low income earners;
- Taxpayers with dependent relative(s);
- Pensioners and senior Australians;
- The taxable portion of a superannuation income stream;
- Net medical expenses over certain amounts.

## **Dependent Spouse Tax Offset!**

If you had a spouse during the previous year and were responsible for maintaining them, and if they were a resident living in Australia and you were also a resident at any time during this year, you may claim spouse tax offset. Under the new rules the spouse must born after 30 Jun 1971.

## **PENALTIES AND INTERESTS**

The Australia revenue system depends on everyone providing the correct information to establish tax liability and pay the correct amount of tax. Taxpayers who fail to meet their tax obligations may be liable for penalties and interest charges. The types of penalty which apply can be administrative, civil or criminal. Interest charges apply to unpaid amounts such as shortfall amounts, late payments and tax debts.

## **Who are Losers in Tax Time?**

These are people who:

- Are not organized;
- Don't keep records of receipts;
- Don't maintain work-related travel/car expenses.

## **Get Professional Advice**

It's a win-win situation. Seek professional advice and maximize your lawful tax return. Do not be lazy, otherwise you risk baffling yourself; get assistance from us in getting your money back from the ATO.

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