



# TAX TALK

Issue 1 Individual

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### MORE TAX FREE INCOME!

An affect of these changes is that you may not have to pay tax until your taxable income exceeds \$10,000. If your taxable income is more than \$10,000, a reduced offset may be claimed up to a taxable income of \$40,000.

## PERSONAL TAX RATES:

The big headline of the May 2006 Federal Budget was more personal tax cuts for you!

From 1 July 2006 the new personal tax rates are:

INCOME RANGE (\$)	TAX RATE (%)
0 – 6,000	0
6,001 – 25,000	15
25,001 – 75,000	30
75,001 – 150,000	40
150,001 and above	45

The above rates **do not** include the Medicare Levy of 1.5%.

### More for low income earners

From 1 July 2006, more taxpayers are likely to have access to the low income tax offset (LITO) because:

- ▶ LITO will begin to phase out at \$25,000 (instead of the usual \$21,600 threshold); and
- ▶ The maximum amount of offset will increase from \$235 to \$600.

## YOUR 2006-2007 TAX RETURN:

It's not long until June 30 – and the end of another tax year! To help you get ready for your 2006-2007 tax return, here are some simple steps you can follow:

### Step 1: Collect all your tax records

To help us to prepare your tax return so we can be confident that it accurately reflects your optimum tax position, the starting point is getting together all of your tax records.

This includes putting together relevant records, including evidence of:

- ▶ Your income (eg. Payment Summaries of your salary and wages, dividends, interest income, rental property income, and any information on the sale of your assets during the year like shares or investment properties) and
- ▶ Your allowable deductions (eg. invoices and receipts of expenditure).

## **What about work related deductions?**

If you are going to claim more than \$300 worth of work-related deductions, you will need to be able to substantiate how you worked out the full amount.

If the total of your work related deductions is \$300 or less, you don't need written evidence to prove your claim – but the ATO can still ask you how you worked it out!

### **“HELLO, I'M FROM THE ATO.”**

Last year the ATO ran checks on over 10 million individuals, and as a result contacted nearly 340,000 taxpayers. The ATO is expecting to contact around 329,000 taxpayers this year.

## **Step 2: Know your assessable income**

Keep in mind that your total assessable income could well be more than just your salary. If you have investment income (eg. interest or dividends) or cash income (eg. tips and gratuities), make sure you keep a record and let us know of them.

If you are not sure if some of the income you have received is taxable, it's best to tell us about it so we can work out the correct tax treatment for you. Here's a checklist of some of the more common types of assessable income, including some tips about the things the ATO is on the lookout for this year.

**Salary and wages** – be careful if you work in what the ATO regards as a cash economy industry because it will be carefully checking your income receipts.

**Tips, bonuses and gratuities** – if you're employed in some industries (like hospitality or taxi industry) the ATO is likely to expect you declare some tips or gratuities.

**Interest income** – eg. from banks, building societies, credit unions, term deposits.

**Dividends** – watch out for things like *dividend reinvestment programs* where you get extra shares instead of actually receiving a dividend. The value of the amount of any dividend reinvested is still taxable.

**Allowances provided by your employer** – eg. for meals, travel or for your car.

**Pensions or annuities** – eg. taxable pensions or annuities paid by your super fund.

**Lump sum payments** made to you by an employer if you have terminated a job during the year.

**Personal services income** – this is a tricky area and may be relevant if you are a contractor or a consultant operating your business through a company, partnership or a trust because the personal services income may apply.

### **WHAT'S THE BIG DEAL?**

Even if your clients originally paid you through your company, partnership or trust, if these rules apply you may need to include this income in your personal tax return, and the types of deductions you and your business entity can claim may also be affected.

**Capital gains** – this has been high on the ATO's audit hit list for the past couple of years and still is, particularly:

- ▶ If you have made any gain on the sale of shares; and/or
- ▶ You have made a gain on the sale of an investment property.

## **Step 3: Maximise your tax deductions**

As an employee, you may be able to claim a range of work related expenses, as well as some non-work related items like donations of more than \$2 to an approved charity.

### **More about work related deductions**

The following page contains a checklist of some of the more common work-related deductions.

**Special work clothing** – e.g., the cost of buying and maintaining protective clothing and occupation specific clothing is usually deductible.

**Subscriptions and union dues** – including things like membership fees for a relevant professional association.

**DID YOU KNOW?**

Most people are aware they can claim a deduction of their accountants' fee for preparing a tax return, but did you know that you may also be able to claim travel expenses to and from your accountant?

**Self education expenses** – e.g., tuition and course fees for something relevant to your current employment, as well as the cost of textbooks, stationery and possibly some travel expenses.

**Work related travel expenses** – you can claim some types of travel expenses directly connected with your job (but not the cost of travelling to and from work).

**Home office expenses** – if your employer lets you work from home, you may be entitled to claim deductions for a proportion of running expenses like electricity and heating, but not for expenses like your mortgage interest or rent (to claim these your home would also have to be a place of business).

**Step 4: Make the most of tax offsets**

The Tax Office is finding that many taxpayers are still not taking advantage of a number of rebates (now called "tax offsets") and other concessions.

Tax offsets reduce any tax you may have to pay on your taxable income and can in some instances even result in a refund. Make sure you are not overlooking an offset that may be of benefit to you, for example:

**Medical expenses offset**

If medical expenses you have paid for yourself, your spouse and your dependants exceed \$1,500 (net of any rebates to which you are entitled from Medicare or your private health fund), then you can claim a rebate of 20% of the excess over \$1,500.

**WHAT MEDICAL EXPENSES COUNT?**

Medical expenses can include things such as a doctor visit, hospital, optical, dental, referred physio, prescription medication and even some counselling services.

**30% child care tax rebate**

The child care rebate covers 30% of any out-of-pocket approved child care expenses incurred. The maximum rebate is \$4,000 per child per year. Out-of-pocket expenses are the total fees you had to pay for child care expenses for approved care, less the amount of Child Care Benefit (CCB) you received.

**WHAT IS APPROVED CHILD CARE?**

This is a controversial area. Even if a child care provider is registered, it does not automatically follow that the child care provided is "approved". Care that may be approved includes long day care, family day care, and before and after school care. Some occasional care and in-home care may qualify. Always check that you're only making a rebate claim for approved child care expenses.

***If you have any questions about what deductions or tax offsets you may be entitled to this year, feel free to give Alan a call.***

**Phone: 02 4390 4156**

## OCCUPATION AND INDUSTRY “HIT-LIST”

Each year the ATO targets particular occupations or industry groups for special attention and this year it will be focussing particularly on:

- ▶ Employee business professionals, including accountants
- ▶ Hospitality industry service workers
- ▶ Factory hands, store workers and process workers
- ▶ Mechanical, automotive and electrical trades people
- ▶ Information technology professionals, and
- ▶ Mining site employees.

### ***Income matching and benefits checking***

The ATO will be matching at least 48 million transactions in the current year comparing tax returns to third party information. This will include verifying details such as:

- ▶ employment income
- ▶ Government benefits
- ▶ interest and dividend payments, and
- ▶ health insurance premiums paid and the period of cover.

### **LOST YOUR SUPERANNUATION?**

The ATO says it sent 1,250,000 letters to individuals during 2005-06 informing them that they may have lost track of their superannuation. On a more positive note, 546,800 accounts from the Lost Members Register were “reunited with members”.

## PERSONAL AFTER HOURS SERVICE

Alan is available after hours this tax season as a Registered Tax Agent. We are fully equipped this year with the latest in professional software and ability to directly interact electronically with the Australian Tax Office on your behalf.

### ***Value added service***

- ▶ Personalised advice tailored to your specific situation.  
*We listen.*
- ▶ Attention to detail and keeping you updated.  
*We care.*
- ▶ Competitive and affordable fee structure.  
*We understand.*

### ***Making it easier for you***

Finding the time to have your tax done is always a challenge in today’s busy world. That is why we are committed to fitting *your* schedule.

- ▶ **FEE FROM REFUND** available at no additional charge.
- ▶ After hours and weekend appointments available for your convenience.
- ▶ You are welcome to visit us or we can simply come to you!  
*No time for an appointment?*
- ▶ No problem. Simply drop off, call for collection or mail us your records.

### **Office Hours**

**Feel free to contact us**

**7 days a week**

**9:00 am – 10:00 pm**

### **Appointments available**

**Mon – Fri 7:00 pm till late**

**Sat – Sun 9:00 am till late**



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