



Albert Gigl

The early bird does get the worm – but is it always the juiciest?

By Albert Gigl, Managing Partner, MW Partners Chartered Accountants

Every year after Budget night there is a flurry of activity at IT/Software companies as they re-write their tax software programs to take account of the latest tax changes. These software programs, which are used by tax agents to prepare income tax returns, must also be approved by the Australian Tax Office before they are released.

Sometimes tax agents receive the latest tax software only hours before the first eager client walks through the door.

The first taxpayers to have their return prepared and lodged will usually be the first to receive their refund, but sometimes it may not be the best refund they could get.

A bit of patience and a little extra time spent with your accountant are invaluable in ensuring you get the best result for your current tax return and advice for future returns. Relevant issues are:

Taxable income

Where possible, the highest income earner in a family should not earn any supplementary or investment income.

Dentists who are employees are unable to divert any of their wages to other family members. On the other hand, where the dentist is engaged as a contractor, it is sometimes possible to pay for bookkeeping or secretarial services provided by an associate. Consideration should also be given to whether it is possible to defer income to a later income year when the tax rate may be lower.

Deductible expenses

All expenses, which the taxpayer reasonably believes to be related to earning income, should be brought to the attention of your accountant. Sometimes, it is not necessarily the nature of the expense, but the manner in which it is incurred which makes a difference.

For example, travel from home to work in your car is considered private and no tax deduction is available for these costs. However, if it is necessary to transport patient files, equipment or dental moulds between home and work, then it is likely that the travel cost will be tax deductible.

For individual taxpayers, the expense is deductible in the year it is paid. Therefore, if the dental conference you are going to attend in October 2007 was paid for in June 2007, it is tax deductible in the 06/07 tax year, even though you did not attend the conference until the 07/08 tax year.

Negative gearing

Where the interest cost on borrowings to purchase an investment (property or shares) is more than the income (rent or dividends) generated by the investment, a loss arises and the investment is said to be 'negatively geared'.

The loss is deductible to the person who holds both the investment and the relevant loan. Care must be taken when entering into negatively geared investments as it is tax effective to have the losses applied against a high income earner but not so good when the likely capital gain also needs to be applied to the same high earner.

Simplified Tax System (STS)

The STS, which applies to ABN contractors, has been progressively improved (simplified) by the Tax Office over the past few years to entice more and more taxpayers to join it. The advantages of entering STS are:

- a. Where gross business income is less than \$50,000 the taxpayer is entitled to the entrepreneur's tax offset which reduces any tax payable on net business/contracting income by 25%.
- b. Immediate deduction for assets costing \$1,000 or less.

- c. Prepaid expenses 12 months in advance are deductible.
- d. Simplified accounting for depreciable assets by allocating them to a general pool of assets and depreciating them as a group rather than individually.
- e. A reduction in the period of time the Commissioner of Taxation can normally amend your tax assessment from four years to just two years.

Advice

MW Partners advise a range of health professionals and are experts on the tax issues faced by dentists.

If you would like to discuss your financial or tax affairs and are a member of the ADAVB, your first consultation is completely free of charge. Please call **03 9913 0030** to make an appointment.



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