

Tax Matters to Consider Now and in the Future

By Albert Gigl, Managing Partner, MW Partners Chartered Accountants

The high hopes and expectations for the combined release of the Henry Review and the 2010 Federal Budget were dashed as the Government failed to recommend any substantial tax reforms and those reforms which were tabled are generally many years into the future. Unless you operate a mining company you may consider the Budget announcements insignificant and not applying to you. The changes that may affect dentists and their practices are listed below.

2010 Federal Budget

The announcements worth noting are:

- a. The promised tax cuts will apply from 1 July 2010 with the threshold for the 15% tax rate increasing from \$34,000 to \$37,000 and the tax rate on the \$80,000 - \$180,000 bracket falling from 40% to 37%. The tax savings on earnings of \$180,000 and above is \$1300.
- b. Where children under 18 years old receive distributions from family trusts, the amount they can receive before needing to lodge a tax return or pay tax will increase from \$3000 to \$3300 due to a lifting of the low income tax offset in 2010/11.
- c. The 20% tax offset for medical (and dental) expenses over \$1500 incurred by an individual will have the threshold increased to \$2000 from 1 July 2010. This means the individual will need to be more than \$2000 out of pocket before any rebate applies. Some of your dental patients may have already exceeded the current threshold of \$1500 this year and therefore if they were expecting to undergo further procedures it would be in their interest to bring forward the procedure before 30 June 2010 as they effectively get a 20% discount courtesy of the Tax Office.
- d. Very little impact on superannuation other than Government co-contribution capped at a maximum of \$1000 for incomes up to \$31,920 and permission to be given to the Tax Office to exercise discretion to over look or re-allocate excess superannuation contributions before issuing a tax assessment.

Victorian State Budget

The 2010 Victorian State Budget will reduce the rate of payroll tax on remuneration exceeding \$550,000 from 4.95% to 4.90% from 1 July 2010. It has been eight years since the threshold of \$550,000 was increased which means that many more small businesses are caught paying this tax and dealing with its complications. There will also be a reduction in Workcover premiums.

There is no change to stamp duty or land tax; however land tax for the 2011 year will be based on land valuations as at 1 January 2010 - we all know that there has been a significant increase in land values since 2008.

PAYGW Summaries (Group Certificates)

Wages summaries issued to employees of the dental practice at year-end must now show "reportable superannuation contributions" on them.

This is applicable for the current year ended 30 June 2010 and is likely to result in numerous errors as most employers and employees will be unaware of what constitutes a reportable superannuation contribution. The simple definition is that a reportable superannuation contribution is any contribution paid to a superannuation fund on or before 30 June 2010 that the employee had the capacity to influence by way of amount or the way the amount is contributed to reduce his or her assessable income. Reportable Superannuation Contributions DO NOT include 9% superannuation guarantee contributions and they are usually only salary sacrifice-type superannuation contributions. Many computerised payroll systems may not be set up to handle this differentiation resulting in either incorrect wage summaries or necessitating the manual preparation of year-end wage summaries.

Division 7A

The Australian Tax Office has issued draft ruling TR 2009/ D8, the effects of which I briefly mentioned in my previous article under the heading "Division 7A". This Ruling affects practitioners who utilise a service trust for which excess profits are distributed to what is commonly referred to as a bucket company. Usually the Trust declares the distribution to the bucket company but never physically pays the money to the company. The trust would normally retain the funds and use them for working capital/ investments etc. Even though the bucket company pays tax on the Trust distribution, the ATO believes that because it has not received all it is entitled to, that this constitutes a loan agreement with interest and principal repayments to be made in accordance with Division 7A. The date of effect of the ruling is 16 December 2009.

New Tax Office Software

The ATO has implemented a new income tax processing system during the January 2010 to April 2010 period which created a back log of 300,000 returns yet to be processed. Hopefully all the "bugs" in the system are corrected before the new financial year commences. However we are currently still finding:

- A four-page assessment notice is being sent instead of the old one-page notice and sometimes the succeeding pages do not show the taxpayer's name or tax file number;
- Notices of assessment are sent out with incorrect dates;
- Notices of assessment are sent out without refund cheques; and,
- Partial Notices of assessment are sent out.

The ATO is also using analytical software and third party sources to ensure all taxpayers are meeting their tax obligations. Some of the tools are:

- a. Benchmarking industry standards (dental has not been benchmarked yet);
- b. Data matching against banking sources for credit card and EFTPOS sales;
- c. Data matching against VIC Roads for undervalued sales of motor vehicles, luxury vehicles and cross referencing for new vehicles and 50% investment allowance;



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- d. Data matching against Land Tax Office for disposal of property subject to capital gains; and,
- e. Targeting taxpayers with non-commercial losses which arise from business unrelated to dentistry activity such as hobby farms, yacht charter etc.

Henry Review

Of the 138 recommendations the few which may get implemented in the future of any consequence are:

- Increase of the Super Guarantee Contribution rate to 12%: this will occur via 0.25% increases in 2013-14 and 2014-15, and then 0.5% increases for each of the following five years until 2019-20.
- The higher annual concessional contributions cap of \$50,000 available to those over 50 is to be retained (from July 2012), but only for those with less than \$500,000 superannuation at that time.
- Subject to the Resource Super Profits Tax being introduced, company tax rates for small businesses will be cut to 28% from 1 July 2012 together with an immediate write off for assets worth up to \$5000 and a standard depreciation rate for all other dental equipment of 30%.

MW Partners deals with both simple and complex tax matters for dentists on a daily basis. 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 8825 5400** to make an appointment.



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