

ATO focuses on rental property owners

The ATO has stated it will be paying close attention to excessive interest expense claims, and incorrect apportionment of rental income and expenses between owners.

The ATO is also looking at holiday homes that are not genuinely available for rent, and incorrect claims for newly purchased rental properties.

An ATO spokesperson said that their ability to identify incorrect rental property claims is becoming more sophisticated due to enhancements in technology and the extensive use of data.

Case Studies

Holiday home not genuinely available for rent

John has a newly purchased rental property that had not returned any rental income.

He told the ATO that the property was occasionally advertised on community noticeboards and websites.

John was unable to prove there was a genuine arrangement in which he actively sought tenants, or had taken sufficient steps to genuinely advertise the property for rent.

A rental loss of almost \$60,000 was disallowed and penalties were applied.

Incorrect claims for a newly purchased rental property and false claims

Nancy recently purchased a rental property and had her tax return amended by the ATO to remove deductions for repairs, capital works and incorrectly apportioned borrowing expenses.

Nancy had inappropriately claimed a deduction for repairs to defects present in the newly purchased property, and the capital works and borrowing expenses should have been spread over several years.

She also provided false receipts for property management fees undertaken by a family member.

Nancy was required to pay more than \$57,000 back to the ATO as well as over \$10,000 in penalties for making a false statement in her tax return.

Apportioning expenses between joint owners of a property

A rental property claim was investigated by the ATO where the rental expenses had not been apportioned correctly. The property was jointly owned by a couple but the higher income earner claimed the larger proportion of the expenses.

The expenses were adjusted to reflect the ownership interest and the higher earner had to pay back more than \$8,000 in tax.

GIC and SIC rates for the 2016 September quarter

The ATO has published the 2016 September quarter rates for the General Interest Charge (GIC) and the Shortfall Interest Charge (SIC):

GIC annual rate	9.01%
GIC daily rate	0.02461749%
SIC annual rate	5.01%
SIC daily rate	0.01368852%

Car depreciation limit for 2016/17

The car limit is \$57,581 for the 2016/17 (up from \$57,466 for the previous year). This amount provides a limit on depreciation and GST input tax credit claims.

SuperStream deadline extended!

With only days to go until the 30 June SuperStream deadline, the ATO noted that, while many small businesses had implemented the required changes, "*some small businesses may need extra time and help to become SuperStream compliant*".

The ATO has announced that for small businesses that are not yet SuperStream ready, it will provide a further extension to 28 October 2016.

Update on the government's superannuation program

Editor: Now that the government has been re-elected, it seems they are committed to proceeding with their superannuation policy, including the controversial measure to impose a 'lifetime cap' of \$500,000 on the amount of non-concessional (i.e., undeducted) contributions that can be made into superannuation (calculated from all contributions made since 1 July 2007).

The Treasurer Scott Morrison has also indicated that transitional relief provisions will be introduced in relation to the lifetime non-concessional contributions cap of \$500,000.

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It is proposed that transitional provisions will allow for non-concessional contributions to be made under the rules and limits that existed prior to Budget Night where a superannuation fund has entered into a contract before 3 May 2016 to acquire an asset, and the contract settles after 3 May 2016.

Furthermore, there will be transitional relief for self-managed superannuation funds (SMSFs) that had a Limited Recourse Borrowing Arrangement in place before 3 May 2016, and additional non-concessional contributions are to be made up to 31 January 2017 (so that the borrowing will comply with the ATO's new guidelines).

Editor: There have also been reports that the government may also allow 'carve-outs' for extraordinary 'life events' (e.g., divorce).

Tax time is prime time for scams

The ATO is reminding Australians to be on the lookout for tax-related scams during tax time, as scammers are particularly active because of the large number of people lodging their tax returns.

Assistant Commissioner Graham Whyte said that, while most people were able to identify scams, it is important to remain alert during tax time.

For example, although the ATO makes thousands of outbound calls to taxpayers a week, there are some key differences between a legitimate call from the ATO and a call from a potential scammer:

"We would never cold call you about a debt; we would never threaten jail or arrest, and our staff certainly wouldn't behave in an aggressive manner. If you're not sure, hang up and call us back on 1800 008 540".

Cents per km deduction rate for motor vehicle expenses

The ATO has determined that the rate at which work-related motor vehicle expense deductions may be calculated using the cents per kilometre method is **66 cents per kilometre** for the income year commencing 1 July 2016.

Overtime Meal Allowance Amounts

The reasonable amount for overtime meal allowance expenses for 2016/17, where an allowance is paid under an award, order, determination, industrial agreement or a Commonwealth, State or Territory law, is \$29.40 per meal.

Div.7A benchmark interest rate

The benchmark interest rate for 2016/17, for the purposes of the deemed dividend provisions of Div.7A, is 5.40% (down from 5.45% for 2015/16).

Deductibility of gifts provided to clients

The ATO has confirmed that a taxpayer carrying on business is generally entitled to a deduction for expenses incurred on a gift made to a former or current client, if the gift is characterised as being made for the purpose of producing future assessable income.

However, the expense may not always be deductible (e.g., if the gift constitutes the provision of entertainment that is not deductible).

The ATO's recent determination also highlights that a deduction will be denied where expenditure on gifts is more accurately described as being 'private' in nature (for example, where a gift is provided to a relative outside a business' usual practice of providing client gifts).

Deductibility of airport lounge memberships

The ATO has also confirmed that the cost to a business taxpayer of a yearly airport lounge membership (e.g., Qantas Club, Virgin Lounge) that will be used by its employees is ordinarily deductible, and should not give rise to any FBT liability for the employer (even if the majority of (or indeed *only*) use of the airport lounge membership is for private purposes).

ATO exposes dodgy deductions

With over eight million Australians claiming work-related expenses each year, the ATO is reminding people to make sure they get their deductions right this tax time.

Assistant Commissioner Graham Whyte said that, in 2014/15, the ATO conducted around 450,000 reviews and audits of individual taxpayers, leading to revenue adjustments of over \$1.1 billion in income tax.

"Every tax return is scrutinised using increasingly sophisticated tools and data analytics developed (by) the ATO. This means we can identify and review income tax returns that may omit information or contain unreasonable deductions," Mr Whyte said.

Please Note: Many of the comments in this publication are general in nature and anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the information's applicability to their particular circumstances.