TAXWISE INDIVIDUAL NEWS

SOTHERTONS
CHARTERED ACCOUNTANTS

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IN THIS ISSUE

Superannuation reform changes: what you need to know

1) *Earning less than $40,000*

- *Change to spouse tax offset*

From 1 July 2017, the spouse's income threshold will increase to $40,000. The current 18% tax offset of up to $540 will remain and will be available for any individual, whether married or de facto, contributing to a recipient spouse whose income is up to $40,000. As is currently the case, the offset gradually reduces for incomes above $37,000 and completely phases out at incomes above $40,000.

- *New low income superannuation tax offset*

From 1 July 2017, the new low income superannuation tax offset (LISTO) will be introduced and will replace the low income superannuation contribution (LISC).

Eligible individuals with an adjusted taxable income of up to $37,000 will receive a LISTO contribution into their superannuation fund. The LISTO will equal 15% of total concessional (pre-tax) superannuation contributions for an income year. However, this will be capped at $500.

LISTO is intended to support low-income earners and ensure they do not have to have more tax on their superannuation contributions than they would pay on their salary and wages.

2) *Part-time workers or time out of the workforce*

- *Carrying forward unused concessional contributions*

To improve flexibility in the superannuation system, from 1 July 2018, individuals will be able to make 'carry-forward' concessional superannuation contributions if they have a total superannuation balance of less than $500,000. Individuals will be able to access their unused concessional contributions cap for an income year on a rolling basis for five years. Amounts carried forward that have not been used after five years will expire.

The first year in which an individual will be able to access unused concessional contributions is the 2019-20 income year.

- *Change in eligibility for co-contributions*

Currently, to receive a government co-contribution you must meet the following requirements:

- have made one or more eligible personal superannuation contributions to your superannuation during the income year;
- pass the two income tests ('income threshold' and '10% eligible income' tests);
- be less than 71 years old at the end of the income year;
- not hold a temporary visa at any time during the income year (unless you are a New Zealand citizen or it was a prescribed visa); and
- lodge your tax return for the relevant income year.

From 1 July 2017, in addition to the above requirements:

- you must have a total superannuation balance of less than the transfer balance cap ($1.6 million for the 2017-18 income year) at the end of the previous income year; and
- you must not have contributed more than your non-concessional contributions cap.

3) *Making extra contributions to your superannuation*

- *Changes to personal superannuation contributions deductions*

From 1 July 2017, all individuals under age 75 will be able to claim a deduction for personal contributions they make to their superannuation funds. Currently only individuals who derive less than 10% of their income from employment can claim this tax deduction. However, this condition is being removed to bring more flexibility into the superannuation system and allow more people to utilise their concessional contributions cap. Note that all the other conditions are remaining.

Individuals will have to lodge a notice of their intention to claim the deduction with their superannuation provider should they wish to claim this deduction. Generally, this notice will need to be lodged before lodging your income tax return. You can choose how much of your personal superannuation contribution to claim a deduction for.

Note that these amounts count towards an individual's concessional contributions cap and will be subject to 15% contributions tax in the fund.

Certain untaxed and defined benefit superannuation funds will be prescribed, meaning members will not be eligible to claim a deduction for contributions to these funds. If a member of a prescribed fund wishes to claim a deduction, they may choose to make a personal contribution to another superannuation fund. Therefore, should you intend to make extra personal contributions, you will have to consider if your fund can receive them.

Note also that the government announced that it will retain the work test for individuals aged 65 to 74.

- *Change to the concessional (pre-tax) contributions cap*

From 1 July 2017, the concessional contributions cap is $25,000 for everyone. Prior to this, it was $35,000 for people 49 years and older at the end of the previous income year and $30,000 for everyone else. The new cap will be indexed in line with average weekly ordinary time earnings (AWOTE), in increments of $2,500 (rounded down).

- Before 30 June 2017: If you would like to make extra concessional contributions, check how much concessional contributions have been made on your behalf to all your super funds since 1 July 2016, first estimate the amount of contributions that will be made on your behalf (eg by your employer) before 30 June 2017 or through an existing salary sacrifice arrangement, then work out the gap between these amounts and the amount of concessional cap that is relevant to you that remains before you make additional concessional contributions.

- After 1 July 2017: If you would like to make extra concessional contributions, ensure that your concessional contributions made throughout the year from yourself, made on your behalf or through a salary sacrifice arrangement do not exceed $25,000.

- *Change to non-concessional (post-tax) contributions cap*

From 1 July 2017, the annual non-concessional contributions cap will be reduced from $180,000 to $100,000 per year. This will remain available to individuals between 65 and 74 years old if they meet the work test. The cap is set at four times the concessional contributions cap (ie 4 x $25,000) and will be indexed in line with the concessional contributions cap.

In addition, from 1 July 2017, your non-concessional contributions cap will be nil for the income year if you have a total superannuation balance greater than or equal to the general transfer balance cap (which is $1.6 million for the 2017-18 income year) at the end of June of the previous income year. In this case, if you make non-concessional contributions in that year, they will be treated as 'excess non-concessional contributions' and taxed at a much higher rate.

There is a 'bring-forward' arrangement for individuals under 65, who may be able to make non-concessional contributions of up to three times the annual non-concessional contributions cap in a single year by bringing forward the non-concessional contributions cap for a two- or three-year period. If eligible, when you make contributions greater than the annual cap, you automatically gain access to future-year caps.

From 1 July 2017, the non-concessional contributions cap amount you can bring forward, and whether you have a two or three-year bring-forward period, will depend on your total superannuation balance at the end of June of the previous income year.

For 2017-18, to access the non-concessional bring-forward arrangement:

- you must be under 65 years of age for one day during the triggering year (the first year); and
- you must have a total superannuation balance of less than $1.5 million.

The remaining cap amount for years two or three of a bring-forward arrangement is reduced to nil for an income year if your total superannuation balance is greater than or equal to the general transfer cap at the end of the previous income year.

4) *Earning close to or over $250,000*

- *Change to Division 293 income threshold*

Currently, individuals with income and concessional superannuation contributions greater than $300,000 will trigger a Division 293 assessment.

From 1 July 2017, the government will lower the Division 293 income threshold to $250,000. An individual with income, and concessional superannuation contributions, exceeding the $250,000 threshold will have an additional 15% tax imposed on the lesser of:

1. the excess, or
2. the concessional contributions (except excess contributions).

The ATO will send an email or SMS to individuals who will receive their first Division 293 tax assessment or, who will receive it in myGov if they have linked their account to the ATO. These emails and SMS will only issue during peak assessment periods – you may have already received one in November 2016 or could do so between April and early June 2017.

5) *Approaching retirement*

- *Change to transition to retirement income streams*

From 1 July 2017, the tax-exempt status of earnings from assets that support a Transition to Retirement Scheme (TRIS) will be removed. Earnings from assets supporting a TRIS will be taxed at 15% regardless of the date the TRIS commenced.

TRIS are currently available to assist individuals to gradually move to retirement by accessing a limited amount of their superannuation. Where a superannuation fund member is currently receiving a TRIS, their fund receives the earnings on the assets used to support the TRIS on a tax-free basis.

Earnings on assets supporting transition to retirement income streams will now be taxed concessionally at 15%. This change will apply irrespective of when the transition to retirement income stream commenced.

Individuals will also no longer be allowed to treat certain superannuation income stream payments as lump sums for tax purposes.

The intent of this change is to ensure that TRIS are used to support individuals who are still in the workforce and are transitioning out, rather than being accessed mainly for tax purposes.

- *Innovative retirement income stream products*

Currently, there are rules restricting the development of new retirement income products. From 1 July 2017, the government will remove these barriers by extending the tax exemption on earnings in the retirement phase to innovative products, such as deferred lifetime annuities and group self-annuitisation products. The intent of the change is to provide greater choice and flexibility for retirees to manage the risk of outliving their retirement savings.

6) *For retirees*

- *New transfer balance cap for pension phase accounts*

From 1 July 2017, the superannuation transfer balance cap of $1.6 million will apply. This means there will be a limit on how much of your superannuation you can transfer from your accumulation superannuation account to a tax-free ‘retirement phase’ account to receive an account-based pension income.

The transfer balance cap will start at $1.6 million, and will be indexed in line with the consumer price index (CPI), rounded down to the nearest $100,000.

Individuals will need to track their own individual transfer balance cap. The amount of indexation you are entitled to will be calculated proportionally based on your available cap space. Only the amount of remaining cap space is indexed. Individuals will not be entitled to indexation if they exceed their transfer balance cap. However, you will be able to make transfers into the retirement phase so long as you have not reached your transfer balance cap.

Retirement phase income streams that started before 1 July 2017 will be counted towards the transfer balance cap on 1 July 2017. New pension accounts starting from 1 July 2017 will count towards the transfer balance cap when they commence.

If you are currently in excess of your transfer balance cap, then you may have to remove the excess from the retirement phase account and pay tax on the earnings in excess of the cap.

Different tax rules will apply if you receive a capped defined benefit income stream as you usually cannot transfer or remove excess amounts from these pensions. These pensions are commonly provided by defined benefit funds, but may be provided by other funds, including some self-managed superannuation funds (SMSFs).

If you have to move assets out of your retirement phase account back into your accumulation account to be under the cap before 1 July 2017, capital gains tax (CGT) relief is available to your superannuation fund to reset the cost base(s) of these assets. CGT relief is available if your fund holds the assets between 9 November 2016 and 30 June 2017.

- *Removal of the anti-detriment payment*

From 1 July 2017, the government will remove the 'anti-detriment' provision preventing superannuation funds from claiming a deduction in their own tax return for a top-up payment made as part of a death benefit payment where the beneficiary is the dependant of the person.

The top-up amount represents a refund of a member's lifetime superannuation contribution tax payments into an estate. Removing the ability of the superannuation fund to claim this deduction is intended to ensure consistent treatment of lump sum death benefits across all superannuation funds.

Superannuation funds may continue to claim a deduction for an anti-detriment payment as part of a death benefit if a fund member dies on or before 30 June 2017. The fund has until 30 June 2019 to pay the benefit. Funds cannot include anti-detriment payments as part of a death benefit if the member dies on or after 1 July 2017.

To do!

These changes to superannuation are significant and will affect individual taxpayers differently, depending at what stage of working life individuals are at – low income earners or high income earners, in or out of the work force for the time being, nearing retirement or in retirement. Be 'SuperWise' – you should speak to your tax adviser to help determine how the changes impact on you, for example, whether you should take advantage of any of the changing caps now to top up your superannuation or reconsider how to plan for your retirement.

New tools to check your superannuation entitlements

The ATO has released three new tools you can use to work out if you are eligible to be paid superannuation contributions from your employer, and how much. There is also a tool to report employers failing to pay super contributions.

- The eligibility tool works out if you are entitled to super guarantee contributions.
- The estimate tool calculates your estimated superannuation guarantee amount, based on quarterly earnings.
- The complaint tool can be used to report employers who are not paying super contributions correctly.

Diverting personal services income to Self-Managed Superannuation Funds

The ATO is currently reviewing arrangements where individuals (at, or approaching, retirement age) purport to divert personal services income to a self-managed superannuation fund (SMSF) to minimise or avoid income tax obligations as described in **TA 2016/6** *Diverting personal services income to self-managed superannuation funds*.

Under these arrangements, an individual performs services for a client. The individual does not directly receive any, or adequate, remuneration for the services they provide. Instead, the client is instructed to pay fees or remuneration for the service provided by the individual to a company, trust or other non-individual entity. The relevant non-individual entity then distributes the income to a SMSF, of which the individual is a member, as a return on investment. The purported outcome of the arrangement is that the income is either exempt from tax or taxed concessionally rather than being subject to tax at the individual's marginal tax rate.

The ATO is aware that there have been many superannuation changes since July 2016 including extensive superannuation reforms enacted in November 2016. SMSF trustees and advisors have been required to understand how those changes impact their funds and to address them.

The due date to contact the ATO in relation to TA 2016/6 has been extended to **30 April 2017.**

If you have an arrangement as described in TA 2016/6 or a similar arrangement, please contact the ATO (email: **SMSFStrategicCampaigns@ato.gov.au** and put 'TA 2016/6' in the subject line, include the SMSF trustee name(s), contact details and a time that is convenient for the ATO to call you so that the ATO can work with you to resolve any issues in a timely manner, and minimise the impact on the you and the fund.

Government cracking down on superannuation guarantee non-compliance

On 25 January 2017, the Minister for Revenue and Financial Services, the Hon Kelly O'Dwyer MP, released a statement about the government's new multi-agency working group that will investigate and develop practical recommendations to deal with superannuation guarantee non-compliance.

Chaired by the ATO and comprising senior representatives from The Treasury, the Department of Employment, ASIC and APRA, the working group will identify the drivers of non-compliance, develop ways to improve compliance and policy options to ensure the law remains fit for purpose for Australia's $2 trillion superannuation system.

The final report of the working group was due at the end of March. At the time of writing, the report was not available.

Tip!

You should ensure your employer is paying the right amount of superannuation guarantee on your behalf. If you are unsure of what the correct amount should be, seek advice from your tax professional.

Credit and debit card, online selling, and ride-sourcing data matching

The ATO is collecting data from financial institutions and online selling sites as part of their data matching programs for credit and debit cards, online selling and ride-sourcing.

The data will include:

- the total amount of credit and debit card payments businesses received
- online sellers who have sold at least $12,000 worth of goods or services
- payments made to ride-sourcing drivers from accounts held by the ride-sourcing facilitator.

The ATO matches this data with information they have from income tax returns, activity statements and other ATO records to identify any discrepancies.

Tip!

If you need to correct a mistake you have made in your income tax return, you should talk to your tax agent.

Ride-sourcing data matching

The ATO's ride-sourcing data matching program has been developed to address the compliance risk of the registration, lodgment and reporting of businesses offering ride-sourcing services as a driver. It is estimated up to 74,000 individuals (ride-sourcing drivers) offer, or have offered, this service.

The ATO will request details of all payments made to ride-sourcing providers from accounts held by a ride-sourcing facilitator's financial institution for the 2016-17 and 2017-18 income years.

They will match the data provided by the facilitator's financial institution against our records. This will identify ride-sourcing drivers that may not be meeting their registration, reporting, lodgment and/or payment obligations.

Where the ATO is unable to match a driver's details against ATO records, they will obtain further information from the financial institution where the driver's account is held.

The protocol has been prepared to meet the requirements of the Office of the Australian Information Commissioner's *Guidelines on Data Matching in Australian Government Administration (2014)* (the Guidelines).

This will impact you if you offer ride-sourcing as a way to earn income.

‘Black Economy’ Taskforce

On 14 December 2016, Minister for Revenue and Financial Services, the Hon Kelly O’Dwyer MP, **announced** that the government had established a taskforce to crack down on the ‘Black Economy’. Ms O’Dwyer said, “While there is no single, internationally-agreed definition, typically, the ‘black economy’ refers to people who operate entirely outside the tax system or who are known to tax authorities but deliberately misreport their tax (and superannuation) obligations. The ‘black economy’ can also include those engaged in organised crime, including those who engage in the production and sale of prohibited goods."

The ‘Black Economy’ Taskforce, to be chaired by former chair of the B20 anti-corruption taskforce, Mr Michael Andrew AO, will provide an interim report to government by April 2017. Tackling the ‘black economy’ requires a whole of government approach and participants will include the Reserve Bank of Australia, the Australian Federal Police, ASIC, APRA, AUSTRAC, and the Departments of Human Services and Immigration.

The Taskforce will provide a final report in October 2017 which will include an overarching whole of government policy framework and detailed proposals for action to counter the ‘black economy’.

Targeted amendments to Division 7A

In the **2016-17 Budget**, the government announced it will make **targeted amendments** to improve the operation and administration of Division 7A of the *Income Tax Assessment Act 1936*.

The amendments will apply from 1 July 2018 and will introduce:

- a self-correction mechanism to assist taxpayers to rectify inadvertent breaches of Division 7A promptly;
- appropriate safe harbour rules to provide certainty and simplify compliance for taxpayers;
- simplified rules regarding complying Division 7A loans, including in relation to loan duration and the minimum interest rate; and
- a number of technical amendments to improve the integrity and operation of Division 7A and provide increased certainty for taxpayers.

The proposed changes draw on a number of recommendations from the Board of Taxation’s post-implementation review into Division 7A.

_To do!_

This change may impact you if you have private loans from your business. In that case, you should seek advice from your tax professional.

ATO issues warning on contrived trust arrangements

The ATO recently released Taxpayer Alert **TA 2016/12** cautioning against arrangements that minimise tax by creating artificial differences between the taxable net income and distributable income of closely held trusts.

Deputy Commissioner Michael Cranston said the ATO is investigating arrangements where trustees are engineering a reduction in trust income to improperly gain favourable tax breaks, or sometimes pay no tax at all.

The ATO identified these arrangements through ongoing monitoring and reviews by the Trusts Taskforce, and continues to look for these arrangements using sophisticated analytics.

The Trusts Taskforce was established in 2013 to undertake targeted compliance action against people involved in tax avoidance or evasion using trusts. Since this time, the ATO has raised $772 million in liabilities and collected $164.5 million. In addition to cash collected, assets of $55 million have been restrained under proceeds of crime legislation.

Goods taken from stock for private use

If you take items from your business’ trading stock for your own use, make sure you include the value of these items as part of your business’ assessable income.

To do this, you should record the actual value of the goods (excluding GST) or use estimates provided by the ATO if you are a sole trader or in a partnership. The ATO estimates are updated yearly and are available for the following industries:

- bakery
- butchery
- restaurant/café
- caterer
- delicatessen
- fruiterer/greengrocer
- takeaway food shop
- mixed business (including milk bar, general store and convenience store).

For more information on amounts the ATO accepts as estimates and small business benchmarks, visit the [ATO's website](#).

> ***Note!***
>
> Seek advice from your tax agent or adviser if you are unsure how to treat stock used for private purposes in your accounts for tax purposes.

GST matters

1. *GST – applying to digital products and other services imported by consumers*

In the 2015-16 Budget, the government announced that the application of the GST will be extended to cross-border supplies of digital products and other services imported by Australian consumers.

This includes digital products such as streaming or downloading of movies, music, apps, games, e-books as well as services such as architectural or legal services. Under the new law, overseas businesses will be required to pay GST on these sales from 1 July 2017.

If you have interactions with overseas businesses that supply digital products and services to Australian consumers, let them know they may be subject to the transitional rule for GST.

The transitional rule applies to businesses that:

- meet the registration turnover threshold of A$75,000; and
- supply digital products and services before 1 July 2017 and continue after this date. The portion after 1 July 2017 is subject to GST.

A simplified system will be available on the ATO website from 1 April 2017 for these businesses to electronically register, lodge and pay GST.

> ***To do!***
>
> Talk to your tax agent about the GST implications for you if goods and supplies you have been acquiring from an overseas business that you may have been using in your business become subject to GST.

2. *GST on low value imported (physical) goods*

In the 2016-17 Budget, the government confirmed that from 1 July 2017, the GST will be extended to low value imports of physical goods imported by consumers.

In summary, the reforms will:

- make supplies of goods valued at $1,000 or less at the time of supply connected with Australia if the goods are, broadly, purchased by consumers and are brought to Australia with the assistance of the supplier;
- treat the operator of an electronic distribution platform as the supplier of low value goods if the goods are purchased through the platform by consumers and brought to Australia with the assistance of either the supplier or the operator;
- treat re-deliverers as the suppliers of low value goods if the goods are delivered outside Australia as part of the supply and the re-deliverer assists with their delivery into Australia as part of, broadly, a shopping or mailbox service that it provides under an arrangement with the consumer;
- allow non-resident suppliers of low value goods that are connected with Australia only because of these amendments to elect to be a limited registration entity and as such access the simplified registration and reporting system; and
- prevent double taxation by making importations of goods non-taxable importations if the supply of the goods is a taxable supply only as a result of these amendments and notice is provided in the approved form.

A vendor registration model will be used where non-residents with an Australian turnover of $75,000 or more will be required to register and charge the GST.

At the time of writing, the *Treasury Laws Amendment (GST on Low Value Goods) Bill 2017* which contains this measure was sitting before Parliament.

3. *When to charge GST (and when not to)*

i) When to charge GST

If you are registered for GST, most of the sales you make in Australia will include GST.

Sales which include GST (taxable sales) are:

- made for payment (monetary or other);
- made in the course of operating your business (including any capital assets sold); and
- connected with Australia.

For these taxable sales, you:

- include GST in the price;
- issue a tax invoice to the buyer;
- pay the GST you've collected when you lodge your activity statement.

ii) When not to charge GST

You do not include GST in the price of goods and services that are:

- GST free – such as most basic foods, some education courses and health care products and services.
- Input taxed – such as lending money and renting out residential premises.

4. Claiming GST credits – refresher

You can claim a credit for any GST included in the price of goods and services that you purchase for your business and use to make either taxable or GST-free sales. This is called a GST credit.

You can't claim a GST credit for the GST included in the price of purchases you use to make your input taxed sales.

Note!
Your tax agent knows when you can and can't claim GST credits. They will be able to ensure you put the right information into your activity statement and make the right claims for GST purposes.

5. Ride-sourcing and GST

On 17 February 2017, ride-sourcing company Uber lost its battle with the ATO over whether its drivers have to pay 10% GST on their earnings.

In a judgment handed down by the Federal Court, it was ruled that ride-sourcing is considered to be taxi travel and Uber will therefore need to pay GST on travel.

If you earn income through providing ride-sourcing services, you need to:

- keep records
- have an Australian business number (ABN)
- be registered for GST, regardless of how much you earn
- lodge business activity statements (BAS)
- pay the GST portion of the full fare received from passengers for each trip you provide
- include your income from ride-sourcing in your income tax returns.

Drivers are also entitled to claim income tax deductions and GST credits (for GST paid) on expenses (you may need to apportion these so you only claim amounts relating to providing ride-sourcing services).

The ATO's data matching activities will identify if you provide ride-sourcing services. If you do, you may receive a letter from them explaining your tax obligations.

Foreign resident capital gains withholding

New rules apply to vendors disposing of certain taxable Australian property under contracts entered into from 1 July 2016. A 10% non-final withholding will be applied to these transactions at settlement.

Australian resident vendors selling real property will need to obtain a clearance certificate from the ATO prior to settlement, to ensure they don't incur the 10% non-final withholding.

This new withholding legislation assists the collection of foreign residents' Australian tax liabilities. It imposes an obligation on purchasers to withhold 10% of the purchase price and pay it to the ATO, where a vendor enters into a contract on or after 1 July 2016 and disposes of certain asset types (or receives a lease premium for the grant of a lease over Australian real property).

The foreign resident vendor must lodge a tax return at the end of the income year, declaring their Australian assessable income, including any capital gain from the disposal of the asset. A tax file number (TFN) is required to lodge a tax return; they will need to apply for a TFN if they don't have one. The vendor may claim a credit for any withholding amount paid to us in their tax return.

- Australian resident vendors can avoid the 10% withholding by providing one of the following to the purchaser prior to settlement:
  - for Australian real property, a clearance certificate obtained from the ATO
  - for other asset types, a vendor declaration they are not a foreign resident.
- Foreign resident vendors may apply for a variation of the withholding rate or make a declaration that a membership interest is not an indirect Australian real property interest and therefore not subject to withholding.

Purchasers must pay the amount withheld at settlement to the Commissioner of Taxation.

Note!

If you are buying or selling property and a foreign resident party is involved in the transaction, talk to your tax agent to ensure you meet your tax obligations in relation to this transaction.

Working holiday makers

From 1 January 2017, the first $37,000 of a **working holiday maker's** income is taxed at 15%, with the balance taxed at ordinary rates.

The tax on any departing Australia superannuation payment made to working holiday makers after 1 July 2017 has also increased to 65%.

A person is a working holiday maker if they have a visa subclass 417 (Working Holiday) or 462 (Work and Holiday).

When they lodge an income tax return, the ATO will work out how much tax they should have paid. If they have paid too much, the ATO will give a refund. If they have not paid enough, the ATO will send the working holiday maker a bill.

a) Employer registration

Employers employing working holiday makers must be registered.

Once an employer is registered, a withholding rate of 15% applies to the first $37,000 of a working holiday maker's income. From $37,001, normal foreign resident withholding rates apply.

If an employer does not register, they must withhold tax at 32.5% for the first $37,000 of a working holiday maker's income. From $37,001, normal foreign resident withholding rates apply. Penalties may apply to the employer for failing to register.

b) Change in tax rate for super payments to working holiday makers

From 1 July 2017, departing Australia superannuation payments (DASPs) made to working holiday makers (WHMs) will be taxed at 65%.

If an individual holds or has held a 417 (Working Holiday) or 462 (Work and Holiday) visa, they are classified as a WHM.

This change is related to a new income tax rate for WHMs which was introduced by the Australian government in December 2016. Payments made before 1 July 2017 will be taxed at the current rate, which is 38% for a taxed-element. Employers of working holiday makers will need to be aware of their relevant obligations.

To do!

If you are a working holiday maker, you should seek the advice of a tax professional to ensure you have been taxed correctly.

Deductions – current matters

1. Deductions – what the ATO is paying extra attention to

The ATO has been paying extra attention to people claiming higher than expected deductions during TaxTime 2016.

Individuals should make sure their claims for work-related expenses are right by using the series of occupation guides or other general advice available on the ATO website, which help people in specific industries understand and correctly claim the expenses they may be entitled to.

If you use myTax to lodge your return, your claims are compared with the claims of taxpayers in similar occupations and with similar income, giving you a real-time warning if your claims are unusually high in comparison.

You can visit the ATO to learn more about **work-related expenses** and the **occupation guides**. However, it is best to seek the advice of a tax professional if you are unsure what deductions you are entitled to or how much you can claim.

2. Keeping track of deductions made easy

The ATO's **myDeductions tool** in the ATO app can help you keep track of your work-related expenses, car trip data, gifts and donations. You can record your expenses on the go using your phone or device. Come tax time, you can then email your deductions file to your tax agent to review, who can then advise you on your claims and lodge your tax return.

You can also keep the file on record in case you need it later. If you use the upload feature in the app, your tax agent can access your data via the Practitioner Lodgment Service and check it before lodging.

3. Work-related travel expenses not deductible

Re Reany and Commissioner of Taxation [2016] AATA 672

The Administrative Appeals Tribunal (AAT) has found that a first class sheet metal worker employed at an alumina refinery in Western Australia was not entitled to deductions for the cost of transporting his tools and equipment between his home and his workplace.

It is accepted that one exception to the general rule that the cost of travel between home and work is not deductible is where an employee is required by his or her employer to carry bulky tools or equipment from home to work and no secure storage is provided by the employer to the employee to store the tools and equipment at the worksite.

In this case, the evidence established that the taxpayer's employer provided him with a locker to store his tools and equipment at his primary place of work. The taxpayer said that it was his decision to take his tools and equipment home each night as he did not believe the storage lockers provided by the employer to be secure.

The AAT found that the taxpayer was not entitled to a deduction for any amount of his work related travel expenses as he was not required by his employer to carry his bulky tools and equipment from home to work. By his own admission, this was the taxpayer's own personal choice, arising out of his unsupported safety concerns.

Note!

If you are in a similar situation and are claiming a deduction for the cost of travel from home to work because you are taking bulky tools home with you, you should seek advice from your tax professional to confirm whether you are entitled to this deduction.

1) *Holiday homes – tax deductions*

If you own a holiday home you can only claim tax deductions for expenses to the extent the home is rented out or genuinely available for rent. Even if you do not rent it out, there are capital gains tax implications when you sell it.

The ATO has provided information and examples on the following scenarios, please visit their **website**:

- Holiday homes – not rented out;
- Holiday homes – rented out;
- Holiday homes that are not genuinely available for rent; and
- Claiming deductions.

Renting out a room or your house is rental income

Money you earn from renting out a room in your house is rental income. This applies to rooms rented by traditional means or through a **sharing economy** website or app.

The ATO has **examples** on its website to help you understand how claiming deductions works when renting rooms, or your main residence, on an occasional basis.

To do!

If you are renting a room out or your home out using a service like Airbnb or Stayz, you should seek advice from your tax professional to ensure you are not only declaring the right amount of income, but also claiming deductions you may be entitled to for earning income this way.