



**Chartered
Accountants**

March 2010 Newsletter

R&D Tax Offset Abuse

The Tax Office has issued a Taxpayer Alert warning taxpayers to be cautious of investment schemes that abuse the research and development (R&D) tax offset.

The Tax Office says the schemes involve a company structuring contracts with a registered research agency (RRA) to take advantage of the prepayment concessions in the tax laws.

The Tax Office is concerned the schemes may give rise to various taxation issues, including whether:

- the prepayments rules will apply;
- the expenditure has been incurred; and
- the company and the RRA are dealing with each other at arm's length.

Deductions and Refinancing Home Loans

The Tax Office has also issued a Taxpayer Alert in which it alerts taxpayers about sham arrangements being promoted as 'mortgage management plans'.

The arrangements involve homeowners refinancing their home loans and establishing

investment loans to fund the purchase of shares in bogus companies. Homeowners then claim tax deductions for interest incurred on the loans.

The Tax Office says the arrangements may give rise to various taxation issues, including whether:

- the general anti-avoidance provisions may apply to the arrangements; and
- any interest incurred on the investment loans is deductible.

Proposed Land Tax Changes (South Australia)

Land Tax is levied on the owner of a property at 30 June for the forthcoming financial year based on the site value and land use.

Primary production land and principle place of residence are exempt from land tax, it is levied on residential, commercial and industrial land.

Land tax therefore represents a cost to land owners, for example businesses that own their business premises and investment property owners.

The imposition of Land Tax has been topical for some time, especially with increasing property values. The South Australian Government has

released its 2009 / 10 Mid-Year Budget Review which includes proposed changes to land tax rates and thresholds effective 1 July 2010.

The proposed charges are:

- Increasing the tax-free threshold from \$110,000 to \$300,000;
- Adjusting the subsequent bracket to between \$300,001 and \$550,000 and introducing a tax rate for this bracket of 0.5%; and
- Increasing the threshold for the following bracket from \$750,000 to \$800,000.

Further, from 1 July 2011, these proposed thresholds will be increased in line with the Valuer-General's annual assessment of average land value increases.

If this value reduces then the thresholds will remain unchanged, and will then not be increased in subsequent years until that fall has been recovered.

The proposed changes are likely to result in land tax savings for land owners from the reduction in the rate payable, the higher site value before tax is imposed and the future increase of thresholds where average land values rise.

FBT Audit and Compliance Activities

With the 2009/10 FBT year drawing to a close, it is important to note the FBT audit and compliance activities currently being undertaken by the Tax Office.

The activities include:

- car fringe benefits and data matching;
- incorrectly claimed FBT rebates;
- lodgement of FBT returns; and
- reduction of FBT liabilities and employee contributions.

Goods Taken for Private Use

The Tax Office has released the amounts which it will accept as estimates of the value of goods taken from trading stock for private use for the 2009/10 income year by taxpayers in certain specified industries.

These industries include:

- bakery;
- butcher;
- caterer;
- deli;
- fruiterer/greengrocer;
- mixed business (eg general store);
- restaurant/café; and
- takeaway food shop.

- **TIP:** Taxpayers should ensure the value attributed to goods taken from stock for private use is fair and reasonable, and have regard to their own circumstances.

Payroll Tax

Payroll Tax, being a state based tax, has always caused complications for employers in determining in which state payroll tax should be paid on an employee's wages where that employee provides services in more than one state.

All states and territories have now reached agreement on new payroll tax nexus rules that are to apply where wages are paid to workers who provide their services in more than one state during a month.

Under the current rules, payroll tax is generally paid in the state from where the employee is paid.

Under the new rules payroll tax is to be paid in the state where the employee resides. Where the employee does not reside in Australia, payroll tax is to be paid in the state where the registered Australian Business Number address of the employer is located.

These changes only relate to wages paid for employees who provide services in more than one state, where the employee's services are provided solely in

one state the payroll tax continues to be paid in the state where those services are performed.

Legislation has been drafted to implement these new nexus arrangements, effective 1 July 2009.

Naturally there will be transitional and implementation issues for employers who may need to make changes to their payroll systems and calculations. This may affect the timeliness and / or accuracy of such employer's monthly returns whilst these necessary changes are being made.

This potential issue has been recognised, and there is no requirement for employers to lodge their payroll tax returns under the new nexus arrangements until the Legislation is enacted.

In particular, the South Australian Commissioner of State Taxation has indicated that RevenueSA will accept monthly payroll tax returns from 1 July 2009 lodged either in accordance with this new nexus or under the current rules.

Where an employer chooses the latter it will be permissible for the employer to make any necessary adjustments for the new nexus rules in preparing and lodging their 2009 / 2010 annual reconciliation.

Important: This is not advice. Clients should not act solely on the basis of the material contained in this Bulletin. Items herein are general comments only and do not constitute or convey advice per se. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Bulletin is issued as a helpful guide to clients and for their private information. Therefore it should be regarded as confidential and not be made available to any person without our prior approval.