



April 2011 Newsletter

Cash Economy Letters Encouraging Compliance, Says Tax Office

According to the Tax Office, its cash economy letter program is encouraging positive compliance behaviour among small business taxpayers. This financial year the Tax Office aims to send over 100,000 letters to taxpayers who it believes may be participating in the cash economy.

The Tax Office said it will mostly send letters to business operators reporting outside the small business benchmarks for their industry, or to those who, in the Tax Office's view, have reported insufficient business income to meet their expected living expenses.

TIP:

The Tax Office has developed small business benchmarks which it uses to compare the performance of a business against other similar businesses that are operating in the same industry. The benchmarks are published on the Tax Office website and can be used by businesses to help assess if they are likely to be selected for an audit or review.

GIC and SIC Rates

The Tax Office has advised the general interest charge (GIC) and shortfall interest charge (SIC) rates for the fourth quarter of the 2010–11 income year (ie 1 April 2011 to 30 June 2011):

| RATE | ANNUAL (%) |
|------|------------|
| GIC | 11.92 |
| SIC | 7.92 |

Eye Glasses Discount Deal Throws New Light on GST Calculation

A retailer of spectacles has won a court case regarding the correct calculation of GST in relation to spectacles it sold to customers under a special promotion.

Broadly, the taxpayer offered its customers spectacle frames at a discount provided they purchase the lenses at full price. The lenses are GST-free, whereas the frames are a taxable supply – together the spectacles are referred to as a "mixed supply".

The Full Federal Court agreed with the taxpayer that the discount should only be applied to the frames, and not apportioned between the lenses and the frames as contended by the Commissioner.

Tax Office's Approach to Self-Managed Super Funds Affected by Floods

The Commissioner has given an indication of how the Tax Office will deal with self-managed superannuation funds (SMSFs) that own flood or cyclone-damaged buildings purchased under the strict borrowing rules contained in the superannuation law.

Mr D'Ascenzo noted that SMSFs in these situations may be prevented from making improvements without breaching the rules. However, while the Commissioner does not have the discretion to treat an improvement as a repair, he said the Tax Office will not be seeking to make fine distinctions when having regard to what is available to repair what has been damaged.

Fringe Benefits Tax: Year Ended 31 March 2011

The 2011 year for fringe benefits tax purposes ended on 31 March 2011, with the 2011 Fringe Benefits Tax Return due for lodgement and payment on 23 May 2011. In preparing your return remember the following developments during the year that may be relevant:

- The benchmark interest rate for the 2011 FBT year was 6.65%.
- The car parking threshold for the 2011 FBT year was \$7.46.
- The record keeping exemption threshold for the 2011 FBT year was \$7,190.

Also, remember that there are various concessions that exempt benefits from FBT or reduce the taxable value of the benefit, including:

- Eligible work related items.
- Car parking benefits.
- Motor vehicle benefits.
- Meal Entertainment.
- Employee contributions.

Compliance with the FBT Legislation by small to medium enterprises remains an area of focus by the tax office for its Compliance Program, including the failure to identify and correctly calculate the value of taxable fringe benefits. In particular, the Tax Office has specified luxury car purchases as an area of focus.

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.