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Tax Update

Valid tax invoices and GST credits

What is a valid tax invoice?

A valid tax invoice is a document that meets all of the following requirements:

- It is issued by the supplier unless it is a RCTI (in which case it is issued by the recipient)
- It contains enough information to enable the following to be clearly ascertained:
 - The supplier's identity and ABN
 - A brief description of what is sold, including the quantity (if applicable) and the price of what is sold
 - The extent to which each sale is a taxable sale – this can be shown separately or, if the GST to be paid is exactly one-eleventh of the total price, as a statement such as 'total price including GST'
 - The date the document is issued
 - The amount of GST (if any) payable in relation to each sale
 - If the document was issued by the recipient and GST is payable in relation to any sale – that GST is payable by the supplier
 - That the document was intended to be a tax invoice or a RCTI if it was issued by the recipient.

In addition, if the total price of the sale is at least \$1,000 or if the document was issued by the recipient, the recipient's identity or ABN must be clearly identified.

The Tax Office, the cash economy and benchmarks

One of the Tax Office's new weapons against the cash economy is its industry benchmarks.

These benchmarks set out the expected income and expenses of small, medium and large businesses, most of which operate in the cash economy. The ATO now has over 100 benchmarks and this year is ramping up its attack against the cash economy by issuing about 100,000 letters.

The letters basically question why the figures returned by taxpayers in their income tax returns do not fit the industry average.

The ATO expects that after the 100,000 questionnaires are issued, about 3,000 – 4,000 audits will be conducted.

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No deduction for swimwear

The Tax Office has confirmed that expenditure incurred by a swimming instructor in purchasing swimwear was not an allowable deduction. He worked as a part-time swimming instructor and purchased swimsuits every six to eight weeks as a result of the damaging effect of the chlorine.

The Tax Office advised that although the clothing was specialised, it was still conventional clothing, indistinguishable from any swimsuit used for private purposes.

Use of assets in private companies

The Tax Office has advised that from 1 July 2009 (i.e., from the 2009/10 financial year just passed), where an asset is provided for the use of a private company shareholder (or associate), it will generally be treated as a 'payment' if the company provides them for:

- free; or
- less than their market value.

Example

Marina is a shareholder of a private company that owns a city apartment. The apartment is generally available for rent.

However, Marina asks the company not to rent the apartment out for a week so that she and her family can use it (for free) over a long weekend. Marina's use of the apartment is a 'payment' for the purposes of the deemed dividend rules.

The amount of any deemed dividend will be the amount the company normally charges for one week's rent.

ATO looks at car and property sales

The ATO is about to start a new data matching program on car sales and property sales.

Motor vehicle data match

Details will be requested from the state and territory motor vehicle registering bodies where a motor vehicle was sold, transferred or newly registered between 1 July 2009 and 30 June 2010 and the transfer and/or market value of the vehicle is \$10,000 or greater.

The ATO is basically using the data matching program to catch:

- those who are not in the system;
- businesses that are not reporting the sales of motor vehicles; and
- taxpayers in business whose reported income was not sufficient to support the purchase of the vehicle.

Real property data match

State and territory authorities will be asked to provide updated identity and transaction details relating to property title transfers between 1 July 1999 and 30 June 2010.

Personal fraud and tax scams

The ATO reports that scammers take almost a billion dollars from more than 800,000 Australians every year. Scams involving tax are common, and victims will often find that their identities have been misused or sold to commit fraud.

Tax scam example

Patrick received an email claiming to be from the ATO, stating that his income tax refund had been 'recalculated' and that he was entitled to an additional \$250. All he had to do was click on a link in the email, provide some details, and he could expect the extra money in a few days.

He clicked on the link in the email, which took him to a website that for all purposes looked authentic. All he had to do was complete the form online, then click the print button and send the printed form to the ATO in Canberra.

When he clicked the 'print' button, not only did he print out the 'claim form' but he also unknowingly sent his full identity and credit card details electronically to an organised criminal syndicate in the Ukraine.

His identity was then sold on the black market. His credit card was used fraudulently to make \$10,000 in purchases from online merchants. The syndicate also lodged a false income tax return in his name.

Suspect tax returns try to claim \$millions in refunds

The Tax Office has advised that since 1 July 2010, more than 7,000 suspect income tax returns have been stopped for review. The returns which have been stopped and reviewed are making claims for refunds of around \$30 million.

Last year, the ATO detected around 26,000 suspect income tax lodgments worth about \$120 million in refund claims. Over 90% of returns reviewed included invalid claims