



MARCH 2016 CLIENT NEWSLETTER

Welcome...to The Enterprise Sanctuary's first newsletter for the 2016 calendar year. We are excited over the opportunities 2016 will provide in helping you and your business achieve its 'new year's resolutions'. Today, we will have a look at single touch payroll, website cost deductions and how to survive an ATO review or audit.



Single touch payroll

Website cost
deductions

How to survive an ATO
review or audit

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SINGLE TOUCH PAYROLL

Single touch payroll (STP) is a system that the federal government wish to implement which will help to streamline business tax and superannuation reporting for small businesses. STP is planned to come into action around June 2017.

Pay As You Go

Currently, employers manually report Pay As You Go (PAYG) withholdings to the Australian Tax Office (ATO), but under the new STP system, this information will be automatically reported to the ATO through Standard Business Reporting (SBR). In addition, employers will also have the option to pay their PAYG withholding at the same time that they pay their staff.

If all goes according to plan, the change will mean that employers will no longer have to report employee related PAYG withholding in their activity statements throughout the year and employee payment summaries at the end of the year.

Superannuation

Reporting of superannuation contributions will also be automatically sent to the ATO when payments are made. The requirement for reporting super contributions to funds under SuperStream will not change with the introduction of STP.

The Minister for Small Business and Assistant Treasurer, Kelly O'Dwyer, announced in December that the government will conduct a STP pilot in the first half of 2017 with a focus on small business.

To help out small businesses who earn less than \$2million, the government is planning to offer a \$100 non-refundable tax offset for SBR-enabled accounting software. This offset will apply from 1 July 2017, and will apply to software purchases or subscriptions made in the 2017-18 financial year only.

Our analysis

Although we support the policy objective we believe there needs to be further design and development work. We do not dispute that PAYG tax and super is an employee entitlement and must be paid however our main concern is the proposal for PAYG withheld and super is to be paid by businesses more frequently. Policy must take account of the fact that many SMEs struggle with cash flow.

Please contact us at The Enterprise Sanctuary if you would like to talk about this topic in more detail.

CURRENT WEBSITE COST DEDUCTIONS

There are tricks and traps to be aware of when claiming tax deductions for website costs.

If a business incurs expenses before it starts up, it can claim the cost over five years (i.e. 20% of the cost per year).

Small businesses – defined as those with an aggregated turnover of less than \$2 million - can choose to use the simplified depreciation rules. In that case, if the cost is:

- less than the instant asset write-off threshold, which is currently at \$20,000, the small business can claim a deduction for the full amount in the income year it incurs the expense;
- equal to or more than the instant asset write-off threshold, the small business can allocate it to a general small business pool.

The cost of commercial off-the-shelf software is generally deductible in the year of purchase. However, special rules apply to deductions for the cost of developing in-house software for own use of a business.

If the simplified depreciation rules do not apply, businesses can claim a deduction for website costs over five years if they incurred those costs on or after July 1, 2015. If the expense is:

- in-house software - the business can deduct 20% of the cost per year;
- included in a software development pool - the business can deduct different proportions of the expense each year.

Businesses can only allocate expenditure to a software development pool if it was to develop software, not to buy software off-the-shelf.

Businesses can also claim an outright deduction for some ongoing expenses associated with running and maintaining their website in the income year the expense is incurred.

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HOW TO SURVIVE AN ATO REVIEW OR AUDIT

Over the next three months, the Australian Tax Office is planning to target up to 90,000 small businesses it says are failing to comply with their tax obligations.

Business owners would do well to take note of the ATO's interesting and sometimes extensive tactics for gathering information. The ATO has extensive information gathering powers and if you're not doing the right thing, you are running a serious risk of being caught.

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It is important to know that a review is not an indication or suggestion that you or your business has done anything wrong. As long as the ATO's requests are appropriately managed, the matter can often be resolved without amendment.

Reviews can be completely random or you could be selected because you fall outside of a norm across your industry. While there is no real way to know who will be chosen, there are some activities and transactions that will put you at a higher risk.

Businesses operating in industries where cash is a common form of payment such as cafes, hairdressers and tradespeople are subject to high scrutiny. The ATO provides benchmarks on its website for these industries and if the information that you report on your tax return is outside of these ranges, your risk of audit is high.

Another way to almost guarantee a call or letter from the ATO is to lodge a Business Activity Statement (BAS) with an unusually large refund. This may happen because you purchased a large piece of equipment, for example. In these circumstances, the review generally happens almost immediately after lodging the BAS and, if you are not prepared, it can hold up the refund. Make sure that you have valid tax invoices for all of your purchases before you lodge your BAS and if you are registered for GST on a cash basis, check that payment has been made during the BAS period. Where all records are in order, these reviews are generally resolved very quickly and refunds are released.

Capital gains, particularly where you have been able to take advantage of small business, main residence or other concessions, are a common review area and it is for this reason that tax agents often require extensive information from you when we prepare your returns.

Tax reviews and audits take many forms – phone, in writing or face-to-face. It is generally advantageous to have a tax agent by your side when you're dealing with the ATO as we understand how to best resolve the query.

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Important: Clients should not act solely on the basis of the material contained in Client newsletter. Items herein are general comments only and do not constitute or convey advice. Also changes in legislation may occur quickly. We therefore recommend that our formal advice be sought before acting in any of the areas. The Client newsletter 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.