

**OFFICE NEWS**

Congratulations to Julie and Paul Jørgensen and a big welcome to Henry Graham Jørgensen, a beautiful brother for Alexander, who weighed in at 3.89 kg [8lbs 9ozs].

We also welcome Bruce Trehwella, who joined us as a junior accountant in August.

**6TH BIRTHDAY WINNERS**

Congratulations to each of our winners who will shortly receive a magnificently boxed Magnum of The Centenary of Federation Wine.

All wine regions in Australia have contributed to this limited edition commemorative red wine.

Four of Australia's most respected winemakers and judges - Len Evans, AO, OBE, Brian Croser, AO, Ian McKenzie and John Henley - have blended this wine.

Brian Croser suggests that the wine can be enjoyed now, but there is a potential to cellar for 20 - 30 years under good conditions.

We at Kennedy & Co are very doubtful that any of our twelve winners could be that patient.

The winners are:

Sean Allwood	Melbourne St Chiropractic
Geoff Black	Wallmans
Mark Blumberg	MS Blumberg
Angela Ferdinandy	Angela Ferdinandy Pty Ltd
Bob Flaherty	Flaherty Electrical
Brenton Hill	Harrison Funerals
Megan McCormick	Australian Gov't Solicitor
Arlene McDonald	Edmund Barton Chambers
Sarah Milde	North East Electrical
Kathryn Presser	Beach Petroleum NL
Neil Verringer	Commonwealth Bank
Denise Watkins	Law Society

Thank you to all who participated in our celebrations.

**FAMILY TAX BENEFIT - SOME CHANGES FOR 2000-01**

On 1 July 2001, Family Tax Benefit ("FTB") replaced Family Tax Assistance, dependent spouse rebate (with child) and sole parent rebate. In addition FTB replaced certain Social Security payments, including family allowance, basic parenting payment, guardian allowance and family tax payment.

Eligible individuals can claim FTB via the tax system or direct payments from the Family Assistance Office (FAO). Through the tax system FTB can be claimed as a lump sum through lodgement of the yearly tax return or through reduced PAYG withholding amounts. Both processes utilise estimates of family income amounts.

An end of year reconciliation is required comparing actual income to estimates previously made. If benefits are to be received direct from the FAO, you will need to lodge a direct payment form with the FAO. If claimed via the tax system, a FTB claim form will need to be lodged with the Australian Taxation office ("ATO") either with your tax return or after you have lodged the return and received the notice of assessment.

The ATO has advised that for the FTB reconciliation process for the 2001 income year, the first \$1000 of a family's FTB or Child Care Benefit (CCB) overpayment will be waived for families who underestimated their income in 2000-01.

Families who still have an excess payment, will have adjustments made to their future FTB payments. Tax refunds will not be used to recover FTB overpayments. In addition, FTB overpayments will not be reflected in Income Tax Notices of Assessment.

If a taxpayer has not received their full FTB entitlement, top-up payments will still be made based on the Notice of Assessment, where possible. These top-ups can still be used to offset a tax debt.

As Family Tax Assistance and the dependent spouse rebate (with child) have now been replaced by FTB, Centrelink will no longer issue statements from the 2000-01 year. Therefore, taxpayers will no longer need to wait for these statements before preparing and lodging tax returns. However Centrelink will continue to issue payment summaries associated with taxable pensions and benefits.



It has been highlighted by the Taxation Institute of Australia (TIA) that the FAO will be unable to provide a statement of earnings to Australian taxpayers receiving FTB due to the inability to generate such information through its computer system. As a result, clients must determine if they are in receipt of FTB payments and if they are, whether they are claiming the correct amount. In addition due to privacy matters, tax agents will be unable to obtain information about clients' FTB entitlements directly from the FAO. As a result, clients will need to inquire from the FAO directly.

**CHOICE OF SUPERANNUATION FUNDS BILL REJECTED**

The Choice of Superannuation Funds Bill 1998 has been rejected by Parliament. The Bill proposed that employers provide employees a choice of funds to which the employer superannuation guarantee contributions are to be made.

## CORRECTING GST MISTAKES

Taxpayers can make corrections to a previous Business Activity Statement (BAS) on a subsequent BAS within the time and correction limits outlined in the following table.

Annual Turnover	Time limit in which you can correct errors
Less than \$20 million	Up to 18 months (18 monthly BASs, 6 quarterly BASs or 1 annual GST return)
\$20 million to less than \$100 million	Up to 3 months (3 monthly BASs)
\$100 million to less than \$500 million	Up to 3 months (3 monthly BASs)
\$500 million to less than \$1 billion	Up to 3 months (3 monthly BASs)
\$1 billion and over	Up to 3 months (3 monthly BASs)

Annual Turnover	Correction limits
Less than \$20 million	Less than \$5,000
\$20 million to less than \$100 million	Less than \$10,000
\$100 million to less than \$500 million	Less than \$25,000
\$500 million to less than \$1 billion	Less than \$50,000
\$1 billion and over	Less than \$300,000

Where the mistakes from previous BASs are outside the time limits, taxpayers must revise the original BAS in which the mistake occurred.

These correction limits are the net effect of the total of all errors occurring in previous BASs.

Where the net effect of mistakes exceeds the correction limits, taxpayers must also revise the original BASs in which the mistake occurred. Revising an earlier BAS may mean that taxpayers are subject to the General Interest Charge where GST amounts remain outstanding.

### DISHONOURD CHEQUES AND GST

This article looks at the GST consequences of a dishonoured cheque. It takes into account the timing of the consideration of taxable supply and the method by which your accounts are prepared.

#### When is consideration received?

The issue of when consideration is received from a cheque transaction, differs depending whether you are the recipient of the supply or the supplier.

If you are the recipient of the supply it is when the cheque is either handed or posted to the supplier. The supplier's consideration is when the cheque is received, not when it is banked or cleared.

The timing of the consideration is important, as this determines when the GST is payable. In a cash accounting system the GST is attributable to the tax period in which consideration is first received. This differs from an accrual basis where the GST is attributable to the first tax

period in which either consideration is received or the invoice is issued.

#### What if a cheque is dishonoured?

A cheque that is dishonoured is not seen as an adjustment event in respect to GST. An adjustment event occurs when supply or acquisition is cancelled. When a cheque is dishonoured the consideration for supply has not changed and therefore supply has not been cancelled. This means that it is not an adjustment event and therefore it does not change the taxable status of the supply.

#### Impact on GST recording

The impact on GST recording can be affected in two ways. Firstly by the basis in which your accounts are recorded, ie. cash v accrual basis, and secondly by the timing of the receipt and the dishonouring of the cheque.

#### Cash basis

Under cash basis accounting, where the receipt and the dishonouring of the cheque occurs in the same tax period, there is no GST affect. Where the receipt and the dishonouring of the cheque occurs in different tax periods, a correction can be made as per the "Correcting GST Mistakes" section in this newsletter.

#### Accruals basis

The affect on the GST depends on the attribution trigger. An attribution trigger is an event that signifies when a supply/acquisition has taken place.

If the cheque is the attribution trigger, then no supply/acquisition occurs until either another payment is made or the invoice is issued. If the cheque is dishonoured before the invoice is issued then no consideration has been made and the liability to GST has not yet been incurred.

If the issuing of an invoice is the attribution trigger, then the dishonouring of the cheque will not impact on the supply/acquisition for which the GST is payable. An entity will have a decreasing adjustment as long as it has satisfied certain criteria. These include:

- that it made a taxable supply;
- the whole or part of the consideration for the supply has not been received i.e. when the cheque was dishonoured it triggered the consideration as not being received;
- the whole or part of the debt is written off as bad or the whole or part of the debt has been overdue for twelve months or more.

Therefore under the accruals method and after taking appropriate steps to recover the debt, the adjustment will be made in the BAS for the period in which the supply became a bad debt.

## RESIDENTIAL RENTAL PROPERTIES

The Australian Taxation Office is undertaking reviews of Rental Properties. Following are a list of areas that clients must consider when preparing information for the completion of their income tax returns.

### Ownership

Ownership of a residential rental property is an important factor in determining income. The income must be distributed between the owners according to their legal interests. That is, the income must be distributed between the owners in the same proportion as ownership.

### Income

Rental income is assessable as ordinary income and in general terms is assessable when received. If rent is owing but not received, it is not assessed as income.

Properties must be “available for rent” to qualify as a rental property. If you own a property but it is not available for rent, then it is not considered a rental property at that time. Examples are holiday homes and properties being repaired.



Properties must be rented at commercial or market rates. Discounting, particularly to friends or relatives, will affect the status as a “rental property” for income tax purposes.

For GST purposes, residential properties are input taxed. Accordingly, owners are not required to collect GST from their tenants but they will have to pay GST on items such as commission paid, repairs etc. Commercial properties however are subject to GST.

### Expenses

All costs in buying the property and bringing that property up to a standard that is appropriate for renting are classified as capital and are not able to be claimed as an expense. They do however form part of the cost base. Examples include stamp duty, conveyancing costs and renovations.

An exception to the above occurs when items that are depreciable assets are included in the cost and can be separately identified. The value of those assets can be deducted from the cost of the property and depreciated. The cost should be recorded at the replacement value of the actual item, based on age and condition.

### Borrowing Costs

It is not possible to claim an outright deduction for borrowing costs but they can be claimed over a five year period or the term of the loan, whichever is the shorter period. Examples of borrowing costs include establishment fees,

valuation fees and stamp duty applicable to the mortgage.

### Interest

Interest is deductible if the purpose of the loan is to produce income. Where a loan is only partly used for gaining assessable income, the interest is only partly deductible.

### Repairs

Repairs to maintain a property are a tax deduction. An important distinction is whether the expenditure is to restore it to its original condition or to improve or enhance its condition. If it is an improvement, then it is considered a capital expenditure and no tax deduction will be available.

### Depreciable Assets

Depreciation will be based on the cost of the asset to you. Assets may be depreciated over the anticipated life of the asset. You may claim depreciation using either the prime cost method, which spreads the depreciation claim evenly over the effective life of the asset or diminishing value method. The diminishing value method has the advantage of accelerating your depreciation claim in the early years.

### Building Allowance

You may be entitled to a building allowance deduction. You will be entitled to such a deduction provided that construction of the building commenced after 17 July 1985. If construction started after that date and before 16 September 1987, the building costs can be written off at the rate of 4% per year. This 4% per year deduction is available notwithstanding the fact that you may have purchased the property some time after 17 July 1985. If construction of the property started on or after 16 September 1987, building costs can only be written off at 2.5% per year.

### Other Expenses

There are a host of other expenses that you may be entitled to claim. These include rates and taxes, maintenance levies, management fees, insurance premiums, cleaning and gardening costs, travel costs to collect rent, advertising for new tenants and letting fees.

The key to maximising deductions for these expenses is meticulous record keeping. It is easy to overlook all those small costs that can add up in the space of a year.

Should you wish to discuss any of the above aspects, please do not hesitate to contact our office.

## PREPAYMENT RULES

As part of the new tax system, prepayment rules applicable to individuals and businesses have been revised. The rules deal with the timing of deductions for prepayments made in respect of:

- Investments in tax shelter arrangements;
- Business expenditure incurred by a:
  1. Business taxpayer other than a small business taxpayer;
  2. Small business taxpayer (less than \$1 million turnover); or
  3. Simplified Tax System (STS) taxpayers; and
- Non-business expenditure.

Certain prepayments are excluded from these rules and continue to be deductible in the income year incurred. These include prepayments that are:

- Less than \$1,000;
- Required to be paid by law or by an order of the court; and
- Payments of salary or wages under a contract of service.

### Investment in Tax Shelter Arrangements

The tax shelter rules apply to all taxpayers and provide that prepaid expenditure that is not immediately deductible must be apportioned over its eligible service period ("ESP"). This is the period during which the item under the agreement is to be done (to a maximum of 10 years). The tax shelter rules apply to prepaid expenditure incurred under a tax shelter agreement on or after 11 November 1999.

### Business Taxpayers

Business taxpayers, other than small business taxpayers, are no longer entitled to an immediate deduction for prepayments incurred on or after 21 September 1999 where the ESP ends within 13 months of the prepayment being incurred. After this date, the deduction must be apportioned over the prepayment's ESP. There are however, some exceptions to this rule and transitional rules apply.

The prepayment rules for a small business taxpayer and STS taxpayers are different for income years commencing before 30 June 2001 and for income years commencing after 30 June 2001. Prepayments were immediately deductible if incurred in a year of income commencing before 30 June 2001 if the ESP ended wholly within 13 months of the expense being incurred (the 13 month rule). If the ESP ended more than 13 months after the expenditure was incurred the deduction was claimed proportionately over each income year containing all or part of the prepayment's ESP.

The 13 month rule does not apply for prepayments incurred in income year's commencing after 30 June 2001. However, different rules apply depending on whether or not the small business taxpayer is an STS taxpayer.

For a small business taxpayers, an immediate deduction is not allowed and must be claimed proportionately over each income year containing all or part of the prepayment's ESP (to a maximum of 10 years). There are some transitional rules that apply.

However, if the taxpayer chooses to enter the STS then they are entitled to an immediate deduction if the prepayment's ESP is no longer than 12 months and the ESP ends no later than the last day of the income year following the income year in which the prepayments incurred. If the prepayment's ESP does not satisfy these requirements then the deduction must be apportioned over the income year containing all or part of the ESP (to a maximum of 10 years). There are no transitional rules that apply.

### Non-Business Expenditure

Non-business expenditure is any expenditure that is incurred in respect of activities that do not amount to a business activity. For example prepaid interest expenditure incurred on a rental property where the activity is not considered to constitute the carrying on of a business. If a taxpayer incurs prepayments that are deductible non-business expenditure in an income year commencing before 30 June 2001, then the taxpayer can claim an immediate deduction where the prepayment's ESP ended wholly within 13 months of the prepayment being incurred.

However, if the prepayment's ESP ends more than 13 months after the non-business expenditure was incurred, the deduction is apportioned over each income year during which the ESP occurs.

The 13 month rule ceases to apply for non-business expenditure that occurs after 30 June 2001. Individuals and STS taxpayers are entitled to an immediate deduction for prepaid non-business expenditure incurred. However, non-individual taxpayers must apportion the prepaid non-business expenditure over each year containing all or part of the prepayment's ESP (to a maximum of 10 years). Transitional rules apply.

Should you have any concerns with how these new prepayment rules apply to you and your situation, please contact our office.

Please note - this newsletter is for the general information and exclusive benefit of clients and associates of Kennedy & Co. It contains brief comments not intended to be the basis for decision making nor to be taken as a substitute for specific advice. Please contact this firm to discuss any matters that may be relevant to your individual situation.

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