

BENEATH THE SURFACE

First Child Tax Refund – Baby Bonus

The Government has introduced legislation to establish a First Child Tax Refund, or Baby Bonus.

The Baby Bonus will provide a tax break of up to a maximum of \$2,500 a year each year, generally for a five-year period. Mothers who have a child on or after 1 July 2001 are eligible to receive the bonus/tax refund. It is designed to pay back to an eligible individual (eg a mother) part or all of the tax paid (if any) on

their taxable income in the 2001 year.

To ensure that mothers on low incomes, including those who were not in the workforce also benefit from the measure, a minimum annual payment of \$500 will be available for those with taxable incomes of \$25,000 or less in the year that they make their claim.

Where the mother

returns to work and her spouse stays at home, the Baby Bonus can be transferred to the spouse. Parents returning to work on a part-time basis will still be able to receive the Baby Bonus, with a reduction according to the income they earn.

It will also be available:

- to parents who adopt a child under 5 years of age on or after 1 July 2001; and
- for the first child born on or after 1 July 2001 for families who already have children

It can be claimed in tax returns from 1 July 2002, or for those who do not lodge tax returns, on a separate form that will be available from our office.

Feeling that life is too busy?

According to Karen Andes in *A Woman's Book of Balance*, "living in balance in a modern world, which is so often *out of balance*, seems like a tall order. Almost everyone I know lives at a somewhat frantic pace. That's why we need lots of simple balance remedies. Deep breaths, belly laughs, human touch, telling the truth, a good meal, a cup of tea, or getting a good night's sleep."

Caroline Jones in *An Authentic Life* states that: "**Without any sacred time, we are robbed of the**

Superannuation Guarantee Charge

- Currently 8% of employees' ordinary earnings
- Increases to 9% from 1 July 2002
- Payments are usually made monthly by employers
- All payments must be made by 28 July each year.

However, to receive a tax deduction this year all payments must be **banked** into the superannuation fund's bank account prior to 30 June.

Failure to lodge on time penalty

Are you lodging your BAS returns on time? Or have you slipped into the habit of often being a little bit late?

From 1 July 2002, the Tax Office will begin automatically applying Failure to Lodge (FTL) penalties for activity statements, fringe benefits tax and income tax returns, and annual GST returns lodged after their due dates.

The FTL penalty generally imposes a minimum flat rate penalty of \$110 for each 28 days (or part thereof) that a return remains outstanding, subject to a maximum of 5 penalty units (ie \$550).. For medium and large business taxpayers, the **base** penalty is increased to \$220 and \$550 respectively.

If you believe that you may have difficulty lodging on time you should contact us or the Tax Office well before your due date to organise an extension of time.

Penalties will not be applied for one-off or isolated cases of late lodgments. Remember that (in addition to the late penalty) the general interest charge (GIC) continues to apply to any amounts outstanding and paid late. For the quarter ended June 2002 the GIC was 11.31%.

Year End Planning

It is the time of year when we consider the various strategies for the reduction of tax payable. For example, you could take a holiday in June and thus defer income to the next financial year.

Before you spend money to save tax, ask yourself if you really need/want the intended item. A big spending splurge in June

may create major cash flow shortages in July/August.

If you are self-employed, a simple way to reduce tax is to pay superannuation contributions for yourself. Another simple method for all taxpayers is to donate money to a tax deductible charity, church etc. Of course, you must have the cash on hand to implement either of these strategies.

The highest marginal tax rate for an individual is 48.5%. In this scenario,

if you spent \$1 000 on a new office desk you would save \$485 in tax and have to fund the balance from your cash flow. On the other hand, if you retained the \$1 000 in the business you would pay \$485 in tax and have \$515 in cash to save or invest.

Spending isn't always the wisest strategy. By retaining a little over half their net income, some taxpayers save this money for the creation of even more wealth.

Positive Cash Flow Story

Sally (not her real name) started a professional services business just over two-and-a-half years ago. Since day one she has saved 40% of **all gross** income and used the balance of 60% to pay for both business and personal expenses.

Why save 40%? In round figures it was calculated as: 10% for GST, 20% for income tax, and 10% for long term investment. Her taxable income (after expenses) has been in the range of \$20,000 - \$30,000. Her GST and income tax payments are up-to-date, and the balance of her savings account is now \$15 000. That is a serious sum of money with which she can now choose an investment strategy.

In addition, Sally has taken seven weeks recreation leave since July last year and intends to continue this pattern.

If you would like to learn more about this combina-

GST Update Seminar

In April we held a very successful GST Update Seminar for both clients and non-clients at Indigo House, New Farm.

Up to now the tax office has taken a 'soft and educative' attitude towards taxpayers and GST. From July 2002 this will move towards an audit stance for existing businesses.

Particular areas of concern have been identified by the Tax Office:

- Failure to make GST adjustments for private portion of purchases eg phone, car
- Cash transactions being omitted because of poor record keeping. Particularly where cash takings are not banked but are used to pay expenses
- Failure to correctly account for GST on sale of business assets eg computer, car
- Hire purchases and leases – if on the 'cash' system, input tax credits are to be claimed progressively as payments are made, not all at once upfront
- Insufficient source documents. No tax invoice, no entitlement to claim credits
- Carelessness. Claiming one-eleventh of everything, even when there is no GST paid eg business name registration, car registration, airline tax on airfares
- Cancellation of registration after claiming significant refunds of input tax credits

If you prepare you own BAS we highly recommend that you request your Accountant to undertake an annual review of your GST claims at the time of preparing your income tax return/s.

Rebates for Senior Australians

The aged pensioner and low income aged persons rebate for the 2001/2002 year will be:

Individual	Amount of rebate	Tax-free threshold
Single person	\$2,230	\$20,000
Each member of a couple	\$1,602	\$16,306
Each member of an illness separated couple	\$2,040	\$18,882

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Recreation Leave: Our office will be closed for recreation leave from Monday 1 July – Friday 5 July 2002 inclusive.

Please Note: Many of the comments in this publication are general in nature. Anyone intending to apply the information to practical circumstances should seek professional advice to independently verify their interpretation and the applicability