



knowledge
in your hands

[Visit us online](#) | [Contact an Expert](#) | [Contact IMPACT Accounting Solutions](#)

Welcome to the November 09 newsletter published by [IMPACT Accounting Solutions](#). Each month we'll send you news, views, tips and advice on how to get the most from your hard-earned dollar. To unsubscribe please click on the Unsubscribe link at the bottom of this page.

Small Business Hit List: Is the Tax Office Targeting Your Business?



Last month, the Tax Office released a raft of new benchmarks for small business. Under the gentle guise of 'helping small business with their tax compliance', the benchmarks are, in reality, one of the key indicators used to identify who is likely to be scrutinised by the Tax Office.

The industries benchmarked are high on the 'likely offenders' list for the cash economy and the Tax Office make it clear that "businesses reporting outside of these benchmarks are likely to attract attention."

The small business benchmarks provide an indication of likely costs relative to turnover for different industries. Up to five ratios are used:

Cost of goods sold to turnover	$(\text{Cost of goods sold} \div \text{turnover}) \times 100 = \text{cost of goods ratio (\%)}$
Labour to turnover	$(\text{Labour costs} \div \text{turnover}) \times 100 = \text{labour/turnover ratio (\%)}$
Rent to turnover	$(\text{Rent} \div \text{turnover}) \times 100 = \text{rent/turnover ratio (\%)}$
GST-free sales to turnover	$(\text{GST-free sales} \div \text{turnover}) \times 100 = \text{GST free sales/turnover ratio (\%)}$
Motor vehicle expenses to turnover	$(\text{Motor vehicle expenses} \div \text{turnover}) \times 100 = \text{motor vehicle expense/turnover ratio (\%)}$

So, for a pub with sales between \$250,000 and \$750,000, the expected cost of goods sold to turnover ratio is 36%-50%. In this same example, the expected labour to sales ratio is 15% - 23%. If the pub falls outside of this benchmark, the Tax Office will take a closer look at their records and determine if an audit is required.

The danger is that if your business falls outside of the benchmark for legitimate reasons, you still need to ensure that you can justify the reasons for the variations. This will be a common problem where businesses do not neatly fit into an industry definition.

Following is the Tax Office small business hit list:

Accommodation and food services		
Chicken shops	Coffee shops	Fish and chips shops
Kebab shops	Pubs, taverns & bars	Restaurants
Sandwich shops	Takeaway pizza shops	Takeaway food services

Sushi takeaways		
Administrative and support services		
Building and other industrial cleaning services		Pest control services
Construction		
Air conditioning, refrigeration and heating services		Bricklaying
Blocklaying	Concreting services	Electrical services
Fence construction	Painting services	Plumbing services
Plasterboard installers	Plastering and ceiling services	Roof guttering installation
Roof painting and repair	Roofing services - includes roof tiling and metal roofing services	
Tiling - floor and wall	Tiling and carpeting services	
Timber floor sanding	Timber floor installation	
Manufacturing		
Cake shops and patisseries	Bakeries and hot bread shops	
Plasterboard installers	Plastering and ceiling services	Roof guttering installation
Rental, hiring and real estate services		
Video and other electronic media rental and hiring		
Retail trade		
Clothing retailing	Computer retailing	Floor covering retail
Florists	Fresh fish and seafood retailing	Fresh poultry retailing
Fruit and vegetable retailing	Furniture retail	Grocery retailers and general stores
Houseware retailing	Liquor retailing	Meat retailing and butchers
Newsagents	Tyre retail	
Transport, postal and warehousing		
Courier services	Delivery services	Furniture removalists
Road freight transport services	Taxi drivers and operators	Towing services
Other services		
Barber and men's hairdressing	Beauty services	Hairdressers
Laundry and dry-cleaning services	Nail salons	

More information on small business benchmarks can be found on the [ATO website](#).

For assistance on how to reduce your tax risk, contact [Doug Ward](#) or [Ben Fitch](#) at [IMPACT Accounting Solutions](#), or call today for an informal chat on **07 5530 6395**.

Crack Down on 'Hobby Businesses' of the Rich



A lot of successful businesses have meagre origins evolving out of the home or a personal interest. For many, these businesses are able to survive because the owners already have alternative forms of income; full time jobs, or other unrelated businesses. Even the great champagne house Veve Clicquot evolved out of a passion for and a belief in the potential of champagne (the family were successful textile manufacturers). Prior to their success however, there were many years of experimentation and losses not helped by an uncertain political and economic environment.

Until recently, taxpayers were able to offset losses incurred in the hobby business against their other tax liabilities if certain tests were passed.

Last month, the Government moved to prevent individuals with an adjusted taxable income above \$250,000 from offsetting tax losses incurred in the hobby business (non-commercial losses), unless they can prove to the Tax Office that the business is a genuine commercial activity.

The change was announced in the 2009/2010 Federal Budget as part of the Government's integrity measures. Legislation was introduced into Parliament last month to effect the changes which apply from 1 July 2009.

In a recent statement, the Government labelled the change a crackdown on a "\$700 million hobby farm tax loophole" but the changes can apply to any type of business that fits the characteristics. The examples in the explanatory memoranda to the amending legislation explore party planners, vineyards, and a business which bred and sold cattle.

Under the non-commercial losses rules, you can generally apply losses against other income if you pass one of four tests:

- assessable income test — the assessable income generated from the activity must be at least \$20,000;
- profits tests — the activity must have produced a profit in three of the last five income years;
- real property test — the reduced cost base value of real property or interests in real property used on a continuing basis to carry out the activity is at least \$500,000; and
- other assets test — the reduced cost base of any other assets used on a continuing basis to carry on the activity is at least \$100,000.

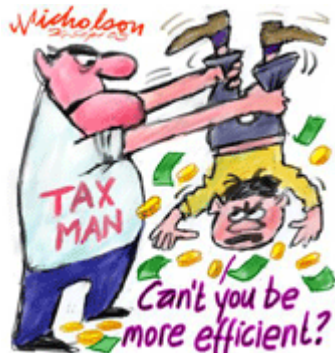
Genuine business activities are typically those that have an expectation of becoming commercially viable in the near future. For those seeking the Commissioner's discretion in order to deduct the losses, they will need to detail the business itself, the nature of the losses and the reason for failing the tests, and provide objective and independent evidence that even though the business is producing losses now, the business will pass one of the four tests within a period of time that is considered commercially viable for the industry concerned.

While there is no doubt that the Clicquot champagne house would pass the non-commercial losses tests, even they may have struggled in the first few years to prove that they were a commercial operation rather than just simply a passion. As with many tax issues, the devil is in the detail.

If you are uncertain of your position, want to start up a business, or simply want to

review your options, contact [Doug Ward](#) or [Ben Fitch](#) at [IMPACT Accounting Solutions](#), or call today on **07 5530 6395**.

Lessons From Past Tax Reform



In a recent address, Dr Ken Henry reflected on past tax reform efforts and outlined what he saw were lessons that should be learned.

Dr Henry said equity is a powerful and under-utilised argument for tax reform. He contended that successful tax reform is not just about increasing GDP or revenue, or making the system easier to understand, more sustainable, fairer, or better able to assist governments to address various social problems.

Dr. Henry also indicated that this would be his last speech on tax reform before the review panel on Australia's future tax system hands its final report to the government in December.

Reports in the press also indicate that the government is likely to release the review's report, along with an initial response, early next year.

It is understood that the review's recommendations will cover reforms that can be implemented within a range of time frames while others will take longer and to also canvass some reforms requiring further work.

Failed forestry schemes: Government to amend law to protect investors



The Assistant Treasurer, Senator Nick Sherry, has announced the government will amend the tax law to protect around 19,000 investors in forestry managed investment schemes (MIS) from an unintended and adverse tax outcome.

He said the collapse of Timbercorp and Great Southern is expected to lead to a number of forestry MIS being wound-up or restructured, which could cause investors to fail the requirement of having held their interest in the MIS for four years as a condition of an up-front tax deduction. The government will amend this four-year holding period rule for forestry MIS to ensure that it cannot be failed for reasons genuinely outside an investor's control.

Senator Sherry said the government will also amend the law to ensure that civil penalties can still apply to the promoters of forestry MIS notwithstanding that the investors' deductions are allowed to stand because of the amendment to the four-year holding rules.

Non-lodgment of individual income tax returns: Inspector-General's report



The Assistant Treasurer, Senator Nick Sherry, has released the Inspector-General of Taxation's (IGT) report into the non-lodgement of individual income tax returns. In doing so, Senator Sherry also announced that the tax bonus stimulus payment boosted the number of taxpayers who have lodged tax returns to an all-time high of around 96 per cent.

However, the IGT review found that every year between 1.2 and 1.5 million individual taxpayers fail to lodge a tax return when they should.

While the IGT agrees with the ATO view that these non-lodged individual returns do not represent a high risk to revenue or the integrity of the tax system, he has noted that the Commissioner of Taxation is unable to exempt such taxpayers from current lodgement requirements.

In this light, the IGT has recommended that the government refer the review's findings and results of the community survey to the Henry Tax Review for consideration in a broader context. It has also been noted that the review has specifically sought input into this area, particularly in respect to how the process of personal income tax returns might be simplified, including by removing the requirement for some taxpayers to lodge returns.

Quote of the Month

"However beautiful the strategy, you should occasionally look at the results."

Sir Winston Churchill

Contact IMPACT Accounting Solutions TODAY!

For the very best advice on Accounting, Business Services, Tax, Financial Planning, Finance Broking and Insurance, contact [IMPACT Accounting Solutions](http://www.impactaccounting.com.au) for a free no-obligation consultation:



Doug Ward B Bus CPA
Partner and Director
p: 07 5530 6395
f: 07 5530 6985
m: 0414 978 047

doug@impactaccounting.com.au

Ben Fitch B Bus(Acc) CPA
Partner and Director
p: 07 5530 6395
f: 07 5530 6985
m: 0413 511 244



ben@impactaccounting.com.au



Certified Practising Accountants

www.impactaccounting.com.au

1/23 Mudgeeraba Road, WORONGARY Q 4213
PO Box 984 MUDGEERABA Q 4213

*The material and contents provided in this publication are informative in nature only. It is not intended to be advice and you should not act specifically on the basis of this information alone. If expert assistance is required, professional advice should be obtained. No responsibility can be accepted for those who act on its content without first consulting us and obtaining specific advice.

This email was sent by IMPACT Accounting Solutions, Unit 1, Worongary Business Park, 23 Mudgeeraba Road, Mudgeeraba Q 4213 to tracey@ontrackcommunications.com.au

[Edit my Profile](#) | [Unsubscribe](#)