INSIDE

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FINANCIAL MATTERS AFFECTING YOUR LIFESTYLE

Essentials On taxable Payments annual reports

Operators in some Australian Industries as well as Select government entities are required by the ATO to lodge a taxable payments annual reports (TPAR). The information that allows it identify contractors who have:

- not included all their income on their tax return
- not lodged tax returns or activity statements
- not registered for GST where they are required to do so
- quoted the wrong ABN on their invoices.

It also allows the ATO to help individual contractors (sole traders) by pre – filling information about these payments into their tax return. There is no requirement for businesses to provide their contractors with details of the information reported, however contractors are within their rights to request this information.

The TPAR lets the ATO know about payments that are made to contractors, and they can be operating as sole traders (individuals), companies, partnerships or trusts.

The taxable payments reporting system was initially introduced to address longstanding compliance issues the ATO had identified in the tax affairs of contractors in the building industry.

Tax compliance issues that were identified included non-lodgement of tax returns, income being omitted from tax returns that were lodged, non-compliance with goods and services tax (GST) obligations, failure to quote an Australian business (ABN), and use of an invalid ABN.

The industries

Building and construction service providers have been required to lodge TPARs since 1 July 2012, and operators in this industry are expected to lodge a TPAR by 28 August each year covering payments made over the most recent financial year (for example, the TPAR due in August 2019 will report payments made from 1 July 2018 30 June 2019.

The system has since been extended to include other industries. Initially these included cleaning services, investigation or surveillance services. The periods covered and the due dates for each are as follows:

- Cleaning services: for contractor payments from 1July 2018 (first report due by 28 August 2019)
- Courier services: for contractor payments from 1 July 2018 (first report due by 28 August 2019)
- Road freight services: for contractor payments from 1 July 2019 (first report due by 28 August 2020)

_What needs to be reported

- Information technology (IT) services: for contractor payments from 1 July 2019 (first report due by 28 August 2020)
- Security, investigation or surveillance services: for contractor payments from 1 July 2019 (first report due by 28 August 2020)

What needs to be reported

Operators in each of the industries covered need to report payments made to contractors that provide those services to each industry.

The details that are required about contractors are generally contained in the invoices (or grant applications in the case of government bodies) that a business receives from them.

The details for each payee include the:

- ABN (where known)
- Name (business name or individual's name)
- Address
- Total amounts for the financial year of the:
- Gross amount paid (including GST plus any tax withheld
- Total GST you paid them
- Total tax withheld where ABN was not quoted

If an invoice received from a contractor includes both labour and materials., whether itemised or combined, the total amount of the payment may need to be reported, unless the labour component is only incidental. The ATO says that a payment for labour is considered to be incidental if the labour component ''is immaterial to the actual supply."

These are payments not required in the TPAR:

- Payments for materials only
- Payments for incidental labour
- Unpaid invoices as at 30 June each year
- PAYG withholding payments
- Payments within consolidated groups
- Payments for private and domestic services.

ATO ACTIONS ON TRUSTS AND TAX AVOIDANCE

The ATO says that it recognises that most trusts are used appropriately and for legitimate purposes. It says it will continue to help those who make genuine mistakes or are uncertain about how the law applies to their circumstances

The ATO has a number of "trust risk rules'' in place to identify higher risk compliance issues – but at the same time, it acknowledges that must trusts do not trigger these risk rules.

The ATO's stated priorities in relation to trusts are to:

- Undertake focused compliance activity on privately owned and wealthy groups involved in tax avoidance and avasion arrangements using trust structures
- Target known tax scheme designers, promoters individuals business who participate in such arrangements
- Lead cross-agency action to pursue the most egregious cases of tax abuse using trusts
- Undertake projects to gather intelligence on and deal with specific risks

The rogue element of the trust landscape is dealt with by the ATO's Tax Avoidance Taskforce – Trusts. This taskforce works by targeting higher risk trust arrangements in privately owned and wealthy groups. The ATO emphasises that these are not ordinary trust arrangements or tax planning associated with genuine business of family dealings.

The trust risk rules

It is the use of trusts for purposes other than genuine business and family dealings that has attracted the ATO's attention. Arrangements that have tweaked the taskforce's focus include those where :

- Trusts or their beneficiaries who have received substantial income that are not registered or have not lodged tax returns or activity statements
- Agreements with no apparent commercial basis that direct income entitlements to a low tax beneficiary while the benefits are enjoyed by others
- There are artificial adjustments to trust income, so that tax outcomes do not reflect the economic substance – for example, where parties receive substantial benefits from a trust while the tax liabilities corresponding to the benefit are attributed elsewhere or where the full tax liability is passed to entities without any capacity or intention to pay.
- Revenue activities are mischaracterised to achieve concessional capital gains tax treatment – for example by using special purpose trusts in an attempt to re-characterise ordinary income as discountable capital gains.

ATO actions on trusts and tax avoidance continued :

- There are offshore dealings involving secrecy or low tax jurisdictions
- Transactions are undertaken for the dominant purpose of changing the character of trust income in order to achieve lower rates of tax (for example, accessing withholding tax provisions)
- Changes have been made to trust deeds or other constituent documents to achieve a tax planning benefit, with such changes not credibly explicable by other reasons.
- Transactions have excessively complex features or sham characteristics, such as circular distributions of income among trusts
- New trust arrangements have materialised that involve taxpayers or promoters linked to previous non-compliance – for example, people connected to liquidated entities that have unpaid tax debts.

The ATO says its taskforce does not operate covertly or by ambush, but rather that its is transparent in its aims to encourage voluntary compliance by publicising its activities and undertaking education projects. Its focus is necessarily on the privately owned and wealthy groups market and on the following risks that can, to a large extent, be ascertained from income tax returns lodged:

- Accurate completion return labels
- Present entitlement of exempt entities
- Distributions to superannuation funds
- Inappropriate claiming of capital gains concessions by trusts.

Source Butler Settineri

Market Volatility. How can you reduce the impact of market movements?

Whenever a stock market decline is splashed all over the news, you probably feel like you should be taking some action. But when it comes to investing, a hasty decision is rarely a wise decision.

Instead, it's worth thinking strategically about how you can structure your investments to reduce the impact of these market fluctuations. And by choosing the right mix of assets to invest in, you'll have a better chance of achieving your long-term financial goals. Here's how to do it in five steps.

Step 1. Consider which type of investor you are

Almost every investment comes with some level of risk – and generally speaking, the greater the risk, the higher the potential returns. So first of all, think about how comfortable you are with short-term market fluctuations, which can impact the face value of your investments. And remember, your comfort level may change as you move through different life stages.

For instance, if retirement is still a long way off, you might choose to invest heavily in growth assets, as you have a longer timeframe to ride out any dips in the market and generate returns over the long term. On the other hand, if you're approaching retirement, you may be more conservative in your investment approach so you can protect the wealth you've already accumulated.

Step 2. Understand the different asset classes

Different investments fall into different asset classes, each with their own levels of risk and return. The more common classes are:

Cash – this includes money held in interest-earning savings accounts. It provides a stable and easily accessible income.
Fixed-interest investments – this include term deposits and government or corporate bonds. They pay regular interest over a fixed term, usually between one and three years.
Property – this includes direct property investments but also property securities, which allow you to invest in commercial, retail and industrial property holdings via the stock market.

- **Shares** – also known as equities, these give you part ownership of an Australian or international company, allowing you to earn dividends through capital growth.

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Step 3. Diversify your portfolio

Every market moves in cycles – so no matter which assets you hold, they're bound to go through periods of downturn. So to help offset market volatility, consider investing in different industries and asset classes. This strategy is called diversification.

Each investment can perform differently under the same market conditions, so when the value of one falls, another may go up. While there are no guarantees that diversification will fully protect you against loss, spreading your capital across a range of investments can balance out the overall levels of risk and return in your portfolio.

Step 4. Consider other ways of investing

If you're nervous about investing in shares directly, there are other alternatives available. One option is to invest in a managed fund, where you pool your money with other investors. Your combined capital can then allow you to invest in assets that might otherwise be out of reach to a sole investor. It can also help spread your risk exposure across a wider selection of investments.

There are many different types of managed funds, and they all usually focus on a specific investment objective. Each comes with its own risk profile and approach, so make sure you shop around to find one that best aligns with your investment strategy.

Step 5. Review your investments regularly

For many of us, our investments tend to be something we set and forget. But it's worth revisiting your investment strategy from time to time – and not just when markets move significantly. That way, you'll be better prepared when markets do become volatile.

Your financial adviser can make sure you have the right mix of assets for your investment timeframe and risk profile. Your adviser can also help monitor your investments through periods of increased market movements, so you can be confident that you're on track towards meeting your financial goals.

We are always available to discuss any questions or concerns you may have.

Core Financial Services
Phone: 1300 375 357