Introduction

A tax payer who is a resident of Australia is legally responsible to income tax on his earnings from every source. Brian Roberts is an Australian resident for tax purpose, so he normally have to state all his incomes he had received in both Australia and worldwide on his tax return for the year 2014/15 income tax year. *(ato.gov.au, 2015)*

Here we will prepare a report on tax return for a taxpayer of an Australian resident, Brian Roberts, for the 2014/15 income tax year and will discuss about the concerning issues related to this while preparing the report.

Brian Roberts is a 37 years aged Australian resident for tax purposes. He is a teacher by profession.

Brian had utilized the services of an unregistered tax agent who was his uncle in order to help him complete his 2013/14 tax return matter.

According to Australian Taxation, using unregistered agents are of huge risks. When some uses an unregistered tax or else BAS agents, that person is taking huge risks because the agent one using might not have the appropriate might not have the educations or knowledge as required of an agent who is registered, and might not have the suitable qualified insurance indemnity cover. In addition, if they are neglectful then one would not be protected under the safe harbor provisions defined in the *Taxation Administration Act 1953*. *(tpb.gov.au, 2015)*

"Case study – Kate gets caught out

Kate saw a leaflet advertising tax services. The leaflet was distributed by Bob who claimed that he could obtain deductions of up to $3,000 for clients.

Kate used Bob to complete and lodge her tax return and paid him a fee for providing this service. Bob was not registered as a tax agent with the TPB.

When reviewing Kate's tax return, the ATO found a number of errors and issued Kate with an amended assessment. Kate ended up having to pay additional tax and administrative penalties.

Following a complaint from Kate and other people who used Bob's services, the Tax Practitioners Board (TPB) commenced proceedings against Bob in the Federal Court for advertising and providing tax agent services for a fee while unregistered. The Federal Court found that Bob had breached the Tax Agent Services Act 2009 and ordered him to pay a penalty of $32,000." (tpb.gov.au, 2015)

The ATO had forced $146 in general interest charges or GIC, which Brian Roberts paid it off on 2nd February, in 2015 because he had paid of his 2013-2014 income tax legal responsibility not on time. GIC may have an effect on income tax return. Generally, one might claim an income tax deduction for general interest charges in the year when the general interest charges had been incurred. On the other hand, where general interest charges incurred was claimed as a deduction or could still be claimed as a deduction, one required to reveal remitted interest earnings in the tax return in that year the remission had occurred. *(Australian Taxation Office, 2015)*

Assessable earnings *(macmillan.com.au, 2015)*

To decide on the sum of income tax to be paid by a person, the subsequent method is made use of to estimate their chargeable incomes: *"Taxable income = assessable income – allowable deductions"*.

The, assessable incomes would comprise of the following things: wages and salaries, other allowances from employer like, travel allowance, tips for example intended for waiters, interest lying on investment, the rent received from properties, profits from the business, capital gains on the sold assets in few cases, unemployment benefit.

The above mentioned list did not left many types of profits exempt from the taxation. Though, there are few receipts by persons that are not subjected towards taxation. These are gifts, gambling win or lottery earnings. Thus, all earnings from commerce are subjected towards income tax.

Allowable deductions *(macmillan.com.au, 2015)*

A person might be capable to reduce the sum of tax to be paid if there are expenditures incurred to earn the profits stated. These expenses are recognized as allowable deductions. To claim a deduction, the tax payer should be capable of to display that:

1. The person paid it off for the expense personally
2. The person had not been reimbursed by the company
3. The expenditure was essential for the person to complete their responsibilities meant for their employer.

Moreover, there are few exceptions to the above mentioned regulations. One widespread case is the donations toward renowned charities. As an incentive for persons to assist in deprived charities, the administration permits donations to the organizations for example World Vision as well as the Salvation Army to be categorized as income tax deductible. Nevertheless, regardless of what claims a person makes, the tax payer should maintain adequate accounts like receipts in order to validate such claims. *(macmillan.com.au, 2015)*

The tax payers are not allowed to claim for expenditures for example travel costs involving home and work, and things purchased for private usage. When a person uses his private means of transportation to carry out responsibilities at work, the charge of such means of transportation usage is a permissible deduction. Furthermore, if a worker journey straightforwardly from one work to a next work, the charge of that journey is permissible. *(macmillan.com.au, 2015)*

Now coming to Brain Roberts's an Australian resident for tax purpose expenses and his desire to minimize his 2014/15 taxable expenditure wherever it is lawfully possible.

- *Australian Education Union membership, Annual membership of the English Teachers Association of Queensland, Annual subscription to the Weekend Australian,* are permissible for tax deductible under Australian Tax Law. *(taxpayer.com.au , 2015)*

- Brian Roberts is capable to claim a tax deduction for attending an annual 2 day education conference in Adelaide and the expenses he had related to the job as an employee. Claiming self education expenditures at item D4 - Work-related self education expenditures on his tax return. But he cannot claim of the cost of the taxi travel which was already reimbursed by the school. *(taxpayer.com.au , 2015)*

- A person cannot claim tax deduction in occupancy expenditures like rents or mortgage interests, council rates as well as house insurance premiums. If a person's only earning are paid to them as a worker, then generally that person would not be not capable towards claiming a deduction for the occupancy expenses. According to this provision, Brain is not liable to get this as tax deduction. In order to claim a deduction for the electricity or water, or gas usage, etc. one can claim any of the following: that is a deduction for the actual expenditures, or a deduction one can work out at a rate of 45 cents/hour. *(ato.gov.au , 2015)*

- The deductions can be claimed for the business usage of a vehicle depending on the commerce structure one operates in, the kind of motor vehicle one uses and whether the person was using the motor vehicle for personal purposes. If a motor vehicle one drives is a car, then that person is entitled to claim a deduction for his work related vehicle expenditures; there are 4 ways one could choose from to exercises the sum one could claim. The ways are cents per kilometer, logbook, 12 percent of original value and 1/3rd of actual expenses. *(ato.gov.au , 2015)*

Here Brian cannot claim the tax deduction for the personal usage of the vehicle, for the kilometers where he visited to his friends and family. But he is able to claim the work related expenditures as an income tax deduction, for instance, travel involving work sites. Though he receives car allowances from the school, still he can claim tax deduction because allowances are taken as assessable earnings to the worker and are usually incorporated as earnings in the tax return. So here Brian is b entitled to claim for a tax deduction for his travel expenses. *(ato.gov.au , 2015)*

- Here the employer's of Brian requires every of their male tutors to put on a tie to job. So Brian purchased 3 ties in 2014-15 to comply with the dress policy of the school. According to the law one might be capable to claim for a deduction if one has some uniform, which is occupation specific outfits, generally which is related to their job as an worker. So one could claim for a tax deduction for the price of purchasing, hiring, etc, for job related uniforms. A person might be capable to claim for a sole item of individual clothing, for example a jumper or tie, if it is required for the person to put on it at job. Usually, an outfit is distinctive if it consist the company's symbol permanently attached and that particular outfits are not accessible to the common public. If the employers needed or supports their employees to put on a distinctive uniform or commercial clothes but it did not consistently implemented the wearing of that, then a person could claim for a deduction for the price of the clothes only if the design of the clothes is registered. So here Brian in this case is not liable for claiming tax deduction. *(ato.gov.au , 2015)*

- Brian misplaced all the receipts for his purchase of his stationery items, thus he cannot claim that for tax deduction because in order to usage of the items for personal and work related purpose a person needs to maintain records, like a diary, so that, if asked for, the person could show the way one has allocated the sum of personal usage and job related usage. *(ato.gov.au , 2015)*

- Again, Brian bought books as well as DVDs which he had utilized exclusively for his teaching is liable for tax deduction because being a teacher he can claim a deduction for the price of teaching supports that are used for job related. *(ato.gov.au , 2015)*

- In his gifts and donation expenses, Brain cannot claim for the deduction for 50 tickets in a raffle organized by the Australian Heart Institute but can claim for deduction in Tasmanian Eye Institute Limited because according to the Australian taxation law. *(ato.gov.au , 2015)*

"You can only claim a tax deduction for gifts or donations to organizations that have the status of deductible gift recipients (DGRs).
Deductions for gifts are claimed by the person that makes the gift (the donor).
For you to claim a tax deduction for a gift, it must meet four conditions:

- *The gift must be made to a deductible gift recipient. We call entities that are entitled to receive tax deductible gifts 'deductible gift recipients' (DGRs).*
- *The gift must truly be a gift. A gift is voluntary transfer of money or property where you receive no material benefit or advantage.*
- *The gift must be money or property, which includes financial assets such as shares.*
- *The gift must comply with any relevant gift conditions. For some DGRs, the income tax law adds extra conditions affecting the types of deductible gifts they can receive."*

- Working as a volunteer for the Salvation Army is tax deductible as an incentive for persons to assist in deprived charities; the administration permits donations to the organizations for the Salvation Army to be categorized as income tax deductible. *(macmillan.com.au, 2015)*

- Paying taxes in rental incomes that is any earnings that a person receives from renting property would be legally responsible for income tax, and thus the person should incorporate it in their tax return. *(ird.govt.nz, 2015)*

"The subsequent expenditures are to be deducted from a person's rental earnings:

- *rates and insurance*
- *interest paid on money borrowed to finance the property*
- *agents fees and commission*
- *repairs and maintenance (except if they substantially improved the property)*
- *vehicle and travel expenditures*
- *legal fees for arranging the mortgage or finance to buy the property*
- *from the 2010 income year and beyond, legal fees for buying and selling a property can be deducted provided your total legal expenses for the income year, including the fees associated with buying and selling a property, are equal to or less than $10,000. Before the 2010 income year, legal fees for buying and selling a property are not deductible.*
- *mortgage repayment insurance*
- *accounting fees for the preparation of accounts*
- *depreciation (but not building depreciation)" (ird.govt.nz, 2015)*

- In the case of the inherited shares of Brian, the Australian Taxation law says *"When someone dies, a capital gain or loss is generally disregarded when a property passes: to the deceased person's executor or other legal personal representative or to the deceased person's beneficiary –- such as next of kin or a person named in the will or from the* *deceased person's legal personal representative to a beneficiary. Similarly, capital gains tax may apply if the deceased person's legal personal representative sells a property as part of winding up their estate."* So here Brain is liable for tax deduction. *(ato.gov.au , 2015)*

- The sale of boat and books are not liable for tax deduction because a sale is taxable, it should be made for payment. This is generally financial but could be any type of payment. *(ato.gov.au , 2015)*

Decline in value of a devaluating asset is worked out on the basis of its effective life. Generally, the successful life of a depreciating asset is how long it could be utilized for a taxable reason, or the reason of producing or exempted income, or non assessable non exempted earnings.

The 2 ways of working out a deduction for the decline in value of a devaluating asset for example a processor, tools and apparatus are the:

- diminishing value method
- prime cost method

"Prime cost method

Using the prime cost method, you can claim a fixed amount each year.

The following formula is used for the prime cost method:

Asset's cost × (days held/365) × (100%/asset's effective life)" (ato.gov.au , 2015)

"Diminishing value method

The following formula is used for the diminishing value method:

Base value × (days held/365) × (200%/asset's effective life)" (ato.gov.au , 2015)

References

1. www.ato.gov.au (2015) – “Tax implications of residency”, A Journal for Tax implications of residency, Australian Government, Australian Taxation Office.
2. www.tpb.gov.au (2015) – “Using an unregistered agent is a big risk”, A Journal for Unregistered agents, Australian Government.
3. Australian Taxation Office (2015) – “How does GIC affect my income tax return?”, A Journal for General Interest Charges or GIC, Australian Government. Retrived on 3rd September 2015 from https://www.ato.gov.au/tax-professionals/payment,-interest-and-penalties/in-detail/penalties-and-interest-charges/general-interest-charge---fact-sheet/?page=1#What_is_GIC_
4. www.macmillan.com.au (2015) – “Small business and taxation”, A Journal for Taxation and small business owners, Chapter 11., pp. 187 – 200
5. taxpayer.com.au (2015) – “Deductions by profession:, A Journal for Taxpayers Australia, Retrived on 3rd September 2015 from http://www.taxpayer.com.au/KnowledgeBase/10025/Individuals-Tax-Super/Deductions_by_profession
6. ato.gov.au (2015) - “Claiming home office expenses”, “Clothing expenses”, A Journal for Teachers - claiming work-related expenses, Australian Government
7. ato.gov.au (2015) – “Conferences, seminars and training courses”, ”, A Journal for professionals - claiming work-related expenses
8. ato.gov.au (2015) – “Withholding from allowances”, “How to claim your work-related daily travel expenses”, ”GST- Free Sales”, “Inheriting property:, A Journal for Withholding from allowances in Australian Taxation Law, Australian Government
9. www.ird.govt.nz (2015) – “Income from rental properties”, “Prime cost and diminishing value methods”, “Gifts and donation”, A Journal for Individual Income Tax