5 reasons why you may not have got as much back on your tax return this year

It's that time of year when Australians get their tax returns back from their accountants and start to dream about how they can spend the cash. Although sometimes people get a nasty surprise and find they received a smaller refund than expected, or worse, end up actually owing the ATO money. Senior tax agent Liz Russell says if this is the case, the best thing to do is reach out to a tax agent as soon as possible. "A tax agent can fully analyse your personal circumstances and if something has gone wrong they'll also speak with the ATO on your behalf," she says. "This will not only lead to a solution, but if you owe money it shows the ATO that you are willing to cooperate, which will often prevent the incursion of further penalties. On the other hand, if you don't act, debts can start accruing interest and, in certain cases, be forwarded to a debt collection agency." According to Russell, there are five main reasons people receive a smaller tax refund than expected or find themselves with an unexpected debt to the ATO.

1. A second job has blown out their taxable income

This is most common when someone does work under their ABN as a sole trader or has picked up a side job in the sharing economy, such as Uber, Deliveroo, Airbnb or Airtasker. Those coming from a traditional employment arrangement, where tax is automatically deducted from their salary, may not realise that they need to be setting money aside to pay tax on their second job too. Further, the additional income can sometimes push them into a higher tax bracket, which means they'll have to pay a higher percentage of their overall earnings as tax.

2. An employer is withholding too little from an employee's wage

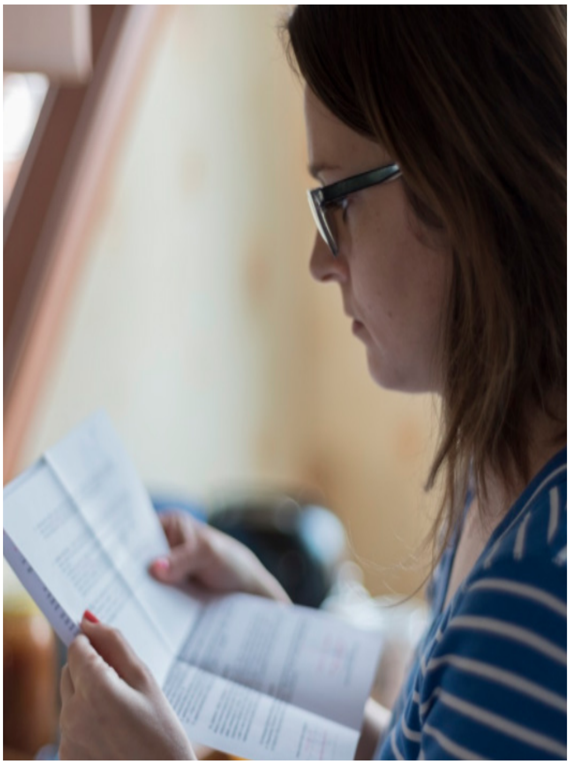
This often occurs when an employer is not withholding enough tax proportionate to their income – especially if they receive a bonus or their overtime pushes them into a higher tax bracket or over the HELP repayment threshold. The ATO has "tax withheld calculators" on its website that indicate how much tax should be withheld from salary payments, taking into account things like student loans, tax offsets and Medicare levy exemptions.

3. Existing government debts

If you have an existing Centrelink, ATO or Family Assistance office debts your tax refund will be used to pay off any amount outstanding. This is done automatically, and the leftover money – if any – is what you'll then have transferred to your bank account.

4. Claiming the tax-free threshold for two or more jobs

If you are an Australian resident for tax purposes, the first $18,200 of a your yearly income is not taxed. This is usually set when you complete your tax file number declaration when you commence employment. However, people run into problems if they earn more than $18,200 during the year and they work two jobs while claiming the tax-free threshold on both. Come tax time it's likely they haven't paid enough tax during the year and they'll end up with a much smaller refund than expected and in some cases even owe the ATO money.



5. Making mistakes on the tax return

There are a variety of errors that taxpayers can commit when filling out their tax return – whether mistakenly or otherwise. This includes failing to declare assessable income (which includes allowances, bank interest and income earned overseas), claiming deductions they're not eligible for, and lacking the necessary documentation to substantiate work-related deductions. The consequence is that any erroneous claims are fixed by the ATO meaning the taxpayer has to pay any overpayments back and in some instances the ATO can also charge interest charges and other financial penalties for incorrect lodgements.

S. Kimmorley, "5 reasons why you may not have got as much back on your tax return this year", Business Insider Australia, 2017. [Online]. Available: https://www.businessinsider.com.au/5-reasons-why-you-may-not-have-got-as-much-back-on-your-tax-return-this-year-2017-8. [Accessed: 24- Aug- 2017].

Payment, or not? The operation of Division 7A

Division 7A is part of the Income Tax Assessment Act 1936 and is intended to prevent profits or assets being provided to shareholders or their associates tax free.

A payment or other benefit provided by a private company to a shareholder (or their associate) can be treated by the ATO as a dividend for income tax purposes, and therefore render this amount assessable. This can apply under Division 7A, even if the participants treat it as some other form of transaction such as a loan, advance, gift or writing off a debt.

Division 7A can also apply when a private company provides a payment or benefit to a shareholder or associate through another entity, or if a trust has allocated income to a private company but has not actually paid it, and the trust has provided a payment or benefit to the company's shareholder or their associate.

A Division 7A deemed dividend is generally unfranked. Given this, the most effective way to provide a payment or other benefit to a shareholder or their associate is to pay it as a normal dividend (with a franking credit if available) and for the shareholder to include it in their assessable income.

Division 7A doesn't apply to amounts that are assessable to the shareholder or their associate under other parts of the income tax law, such as normal dividends or director's fees.

Related issues

Division 7A does not apply to shareholder or associate payments in their capacity as employees. In such situations fringe benefits tax (FBT) may apply instead of Division 7A. Division 7A does apply to loans and debt forgiveness provided to shareholders or their associates even where such benefits are provided in their capacity as an employee or as an associate of an employee. To avoid double taxation, such benefits are not subject to FBT.

Note that payments and other benefits treated as Division 7A dividends are generally not subject to dividend withholding tax or PAYG withholding.

Payments and other benefits taken to be Division 7A dividends are generally unfrankable distributions unless they are provided under a family law obligation. The Commissioner has a general discretion to allow a Division 7A dividend to be frankable if it arises because of an honest mistake or inadvertent omission.

Payments and other benefits provided by a private company to shareholders or their associates as a result of divorce or other relationship breakdowns may be treated as Division 7A dividends and are assessable income of the recipient.

However, such payments or other benefits are treated as frankable dividends if provided under a family law obligation, such as a court order under the Family Law Act 1975, a maintenance agreement approved by a court under that Act or court orders relating to a de facto marriage breakdown.

2017. [Online]. Available: http://taxandsupernewsroom.com.au/index.php/2017/06/20/payment-not-operation-division-7a-bonus-videos/. [Accessed: 24- Aug- 2017].

Foreign Investors Are Eyeing Luxury Aussie Real Estate

The appreciating Australian dollar and new taxes have not deterred foreign investors from snapping up prime residential real estate in Australia, particularly in Sydney and Melbourne, according to Knight Frank's Prime Global Cities Index Q2 2017.

While the housing affordability crisis has locked out more than half of Australia's population from the property market, the local and international one percent are happy to snap up prime luxury properties (which represent the top 5% of the housing market) in Sydney and Melbourne.

Michelle Ciesielski, director of residential research at Knight Frank Australia, said that despite the appreciation of the Australian dollar at the end of July, conditions are still favourable and many expats are securing their ideal home for a future return to Australia.

"Foreign interest in prime Australian residential property has remained relatively strong over the past year, with many currencies holding an ongoing purchasing power against the Australian dollar," Ciesielski said. "In saying this, more due diligence is being carried out by purchasers – particularly due to tax surcharges being introduced, stronger penalties being enforced by the Australian government for those who breach the rules, and the processing fee now payable for every application to the Foreign Investment Review Board."

According to CoreLogic's July 2017 Home Value Index results, the combined capitals recorded a 1.5% rise in dwelling values. And while most individual capitals recorded a rise in dwelling values, Melbourne's 3.1% gain was a significant driver for the strong monthly result across the combined capitals. Savanth Sebastian, senior economist at CommSec, said the latest economic data was "certainly upbeat".

"The rise in home prices will garner the most interest. Especially in light of the solid back-to-back gains in property prices," Sebastian said. "In fact, in the past two months, national capital city home prices have lifted by 3.3 per cent. Granted the outsized 3.1 per cent lift in Melbourne home prices in July was a significant driver of the overall result, but the gains were broad-based."

The strength of the nation's property prices was evident despite the tighter regulations adopted by the banking sector over the past year and highlights the sector's underlying strength. "In fact, five of the eight capital cities recorded healthy gains," Sebastian said.

Deborah Cullen, head of prestige residential research at Knight Frank Australia, said there has been a flood of inquiries from local and international high-net-worth prestige buyers, particularly from Europe and Asia.

"Signature and iconic homes bring expat Australians out to assess and secure something that is a 'one-off' purchase and may not come to market again for a considerable time," Cullen said.

M. Mata, "Foreign investors are eyeing luxury Aussie real estate", Your Investment Property, 2017. [Online]. Available: http://www.yourinvestmentpropertymag.com.au/news/foreign-investors-are-eyeing-luxury-aussie-real-estate-239866.aspx. [Accessed: 18- Aug- 2017].