Client Information Bulletin

PA&M Chartered Accountants

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Chartered Accountants

How to cut your business fuel costs - the fuel tax credit

Fuel tax credits provide businesses with a credit for fuel tax (excise duty) that is included in the price of fuel. Fuel tax credits commenced on 1 July 2006.

Businesses can claim fuel tax credits for the following fuels when used under specific circumstances. They are:

- Petrol or diesel when used in:
  - A vehicle with a gross vehicle mass (GVM) greater than 4.5 tonne travelling on public roads (diesel vehicles acquired before 1 July 2006 can equal 4.5 tonne). These vehicles however must meet one of four environmental criteria. For more information about the environmental criteria go to the Department of Transport and Regional Services website www.dotars.gov.au

    Note farm vehicles used primarily on an agricultural property in a primary production business are excluded from these environmental requirements.
  - Electricity generation.
- Diesel only when used in activities (other than road transport) that were previously eligible under the energy grants credits scheme (EGCS).

  They include:
  - Rail or marine transport
  - Certain primary production activities (for example, agriculture, fishing and forestry)
  - Mining.
- Fuels (including diesel, petrol, kerosene, heating oil and toluene) when used:
  - In burner applications such as heating
  - For any other non-fuel use, such as a solvent or as an ingredient in the manufacture of other products (for example, paint or plastic).
- Specified fuels (including kerosene, mineral turpentine, white spirit and certain fuel blends) that are packaged in containers of 20 litres or less and sold for non-internal combustion engine use.
- Kerosene and heating oil that is sold for domestic home heating.

All businesses need to be registered for both GST and the fuel tax credits before they can claim fuel tax credits. Once registered, businesses can claim fuel tax credits on their business activity statement in the same way they claim GST credits.

To calculate the fuel tax credit multiply the number of eligible litres by the relevant fuel tax credit rate.

The fuel tax credit rate is determined by the type of fuel and the type of eligible activity it is to be used for. The fuel tax credit rate is set at 38.143 cents per litre however, for fuel that is for use in travelling on a public road the fuel tax credit rate is 18.51 cents per litre.

As fuel tax credit rates are subject to change, visit www.ato.gov.au/fuelschemes or phone the ATO on 13 28 66 between 8am - 6pm, Monday to Friday to check the current rates.

To support claims for the fuel tax credits, keep details of:

- The fuel acquired
- The use of fuel in eligible and ineligible (for example, private use) activities
- The basis and method for calculating the quantity of eligible fuel and the fuel tax credit, and
- Any loss, sale or disposal of fuel.

Businesses must keep these records for five years after making the claim.

SMEs and the risk of fraud

According to Alan Green of Hayes Knight Accountants and Business Advisors approximately 35 per cent of small to medium sized enterprises (SMEs) will be victims of fraud. This may range from credit card fraud through to cyber crime. Green suggests the exact number may be understated because organisations are too embarrassed to admit it has happened to them, fearing suppliers and customers will look unfavourably upon them if it is known they were a victim of fraud.

While fraud is most prevalent in companies with more than 100 employees, the effects of fraud are often magnified within SMEs. The average loss for smaller organisations often exceeds the losses of those considerably larger. Accordingly, the effects of fraud can be devastating to both staff morale and the company's finances.

SMEs are often susceptible to fraud because there is less separation of roles – employees are required to multi-task due to the sheer lack of numbers. It can also be risky making the accounting function the responsibility of just one person.

Online fraud

Many small business operators leave themselves wide open to online fraud simply because they have limited IT skills. Allan Bell of MacAfee, the antivirus software company, says many small businesses falsely assume they are too small to be a target.

'Hackers look for vulnerable businesses and people, they don't care about size, they just care that you are vulnerable', says Mr Bell.

A recent Government study showed 32 per cent of businesses operating online have been victims of fraud. Banks lose $2 million a month to online fraud.

Monetary loss is not the only worry for SMEs with an online presence. 'One of the nightmares for small business is losing their customer data -- if their customers' credit card details or other personal details were to appear online, that could mean the end for their business', according to Mr Bell.

Avoid being a victim

Fraud may seem daunting for a small enterprise. Most business owners truly believe they know all their employees quite well. For the most part this is true, however according to David Van Homrigh, head of KPMG Forensic there are measures business owners can take to improve their chances and avoid being a victim of fraud:

- Implement internal controls such as effective management oversight, regular bank reconciliations, separation of responsibility for cash and debtors from the accounting function, and periodic stock and cash counts.
- Don't ignore red flags such as employees who don't take holidays or delegate work; stocktake discrepancies; non-banking of takings; unexplained falling cash flows; accounts that don't reconcile; and employees who appear to be living beyond their means.

  Be vigilant and watch for 'red flags'.
- Instigate pre-employment screening procedures – check references and look for odd 'gaps' in an employee's employment history.
- Ensure, as far as possible, that accounting work is shared among individuals and is not the sole responsibility of one person.
- Establish the ground rules for acceptable work behaviour and ensure that an appropriate 'tone' is set.
- Set clear guidelines on the personal use of assets such as computers.
- Ensure regular conciliation of accounts.
- Check amounts on invoices that are signed off.
- Limit staff access to petty cash.

To protect against online fraud:

- Install a brand name security product, which includes anti-virus, anti-spyware and anti-spam protection, as well as a firewall.
- Keep computer systems patched and up to date with the latest updates.
- Restrict access to computer codes and passwords.
- Change passwords regularly.

By taking these steps outlined above business owners can better manage their risk of fraud.

Trade Practices Act amendments

The Senate passed amendments to the *Trade Practices Act 1974* (Cwlth) (TPA), known as the Dawson Bill. While these changes primarily impact large organisations and how they operate, there was one change that specifically affects small to medium sized businesses (SMEs).

As part of the amendments there is now a streamlined process for allowing small business collective bargaining. Small business will now be able to use a new notification procedure allowing them to negotiate collectively with big business, and obtain an exemption from contraventions of section 45 of the TPA. Section 45 of the TPA covers contracts, arrangements or understandings that restrict dealings or affect competition.

The new streamlined notification procedure will provide a quicker and easier path than the existing authorisation process.

To qualify, each individual company must not expect to conduct business worth more than $3 million per year, although the Government has indicated that it will seek to introduce regulations increasing this limit for certain businesses, such as car retailers, petrol station retailers and farm equipment retailers which have high turnover but low profit margins.

More amendments to the TPA are planned. These changes will look to introduce criminal sanctions for hard-core cartel conduct, thereby strengthening protection for small businesses even further.

New legislation to standardise eligibility criteria for small business tax concessions

The Government announced it would introduce legislation to standardise the eligibility criteria for small business tax concessions from 1 July 2007.

Separate eligibility tests currently exist for GST, the Simplified Tax System, capital gains tax (CGT), fringe benefits tax (FBT) and pay-as-you-go (PAYG) small business concessions.

As a result of the Government's announcement, any business with an annual turnover of less than $2 million will be able to access any of these concessions.

As part of the Government's attempt to reduce the compliance costs for small business, companies will only have to complete one eligibility test to access a range of small business concessions.

A single definition of small business will result in reduced compliance costs for some two million Australian small businesses, or 96 per cent of all Australian businesses.

Businesses with existing access to CGT, FBT or PAYG small business concessions will not lose out under the new arrangements. Those benefits will apply to businesses that meet the new small business definition or that meet other existing eligibility criteria.

The Government will be consulting publicly on the draft legislation in early 2007.

Tax Counsel for the Institute, Ali Noroozi, said the measures would improve access to tax concessions and reduce compliance costs, which will also have flow-on benefits.

'Small business is critical to Australia's growth as it accounts for almost half of the employment and around a third of Australia's economic activity. It is great to see the Government addressing some of the concerns around the complexity of the current tax system and associated compliance costs', Mr Noroozi said.

Company name versus business name

Some may find the differences between a company name and business name confusing. A company name must be registered with the Australian Securities & Investments Commission (ASIC) under the national Corporations Law. If a company wants to trade under a different name, then it is required to also register the trading name as a business name.

A business name is a name under which a business operates. Registration serves as a means of identifying the owners of the business and is obtained under state or territory legislation.

The business name must be registered in every state and territory where trading takes place. Registration of a business name is compulsory and must be completed before the business starts trading.

Be aware that registration of a business or company name does not in itself grant any proprietary rights - only a trademark can provide that kind of protection. To ensure exclusive use of a name now and in the future throughout Australia, the name should be registered as a trademark.

ATO matching activities

The Australian Taxation Office (ATO) utilises an Information matching system (IMS) as part of its compliance program. The ATO looks at a range of information including payroll information on quarterly business activity statements, pay as you go tax, business tax returns and eligible termination payments to identify taxpayers that fail to report income. This year the ATO's audit activities are being increased, with the latest program concentrating on employer obligations.

Last year approximately 36 million records were matched raising additional revenue of $176 million from some 320,000 taxpayers who had failed to report income. The ATO expects to match 40 million records this year.

The ATO matches information from a variety of sources. For example in 2005 the ATO matched withholding amounts claimed by employees in their tax returns against withholding amounts reported in employers' activity statements. This matching alone raised an additional $21 million in revenue.

In addition to using its own information holdings as part of the IMS, the ATO also sources information from external parties.

Legislation requires employers, financial institutions, private health funds, other businesses and government agencies to report details of income, tax withheld, and other information to the Tax Office. The information is then matched up and verified with details in the tax returns of individuals.

The data matching work does not stop at Australian borders. The ATO can match foreign sourced dividends and interest supplied as part of its international exchange of information agreements.

Ad hoc bulk data-matching exercises using external data are subject to strict privacy guidelines covering issues such as public notification and retention periods.

Data matching has proven an effective way to ensure people who profited from the recent property market boom correctly disclose any capital gains on the sale of investment properties. For example the ATO gathered data from land titles offices and state revenue agencies, to identify purchase and sales data.

In 2005 the ATO matched data from more than 24,000 income tax returns with external real estate information. Using that information it conducted over 3,300 audits and raised an extra $30 million where people had not reported a capital gain.

According to the ATO the majority of omitted income found in tax returns relate to investment income, salary and wages (including allowances) and taxable welfare benefits.

Data matching is an efficient and effective way to help ensure the integrity of the Government's revenue system. The ATO continues to explore ways to improve its data matching capability.

Addendum

The 2006 Autumn issue of CIB included an article titled 'Super guarantee contribution penalties'. We wish to clarify that under the new super guarantee contribution system if the employer pays within 28 days of the payment due date, what they pay to the employee's superannuation fund can be used to offset or reduce what is owed to the tax office. For more information about super guarantee contribution penalties please contact your Chartered Accountant.