

# Tax in all its Varieties

The unequivocal bugbear of most working Australians doing their best



The Australian Tax Office (“ATO”), a seemingly secretive organisation, almost nefarious in its activities, appears only concerned with taking a substantial portion of your hard earned money year after year until you retire. Then, of course, it continues in one way or another depending on your source of retirement income. There appears to be no escaping it.

In truth, however, the ATO is a long-established, ever evolving organisation, and an intrinsic element of a democratic society and its dynamic economy. The ATO is a custodian of the major components within the economy, the revenue raising arm of the Government of the day, regulator of the self-managed superannuation sector, administrator of age-pensions; and the Australian business register to name a few. Additionally, **the ATO is the “officer on the beat”** ensuring that everyone from individuals to international organisations plays their part and pays their fair share.

The ATO sees itself as an organisation concerned with the wellbeing of all Australians and considering what they do and the type of country we can live in, it’s probably a fair assessment. Australia is a modern democracy where the Government of the day is elected to represent the fundamental rights of all its eligible citizens. Such rights include, but are not limited to, courtesy of law enforcement, an efficient legal system, a fair tax system all administered with minimal political influence and for the benefit of all.

The evolution of what is today known as the ATO began around 1910 following a fiercely contested campaign, during which tax reform was a major policy platform. A comfortable victory in both houses of Parliament was ultimately secured by the Labor party. This allowed them to embark on radical reform in which the way taxes were levied and ultimately used.

The ideal was to ensure that the nation’s wealth be more evenly distributed among a growing population, for the benefit and opportunity of all Australians as opposed to colonial land barons generating significant wealth for themselves in foreign territories.

Over a century later the modern incarnation of the ATO presides over one of the most complex bodies of law in this country. The complexity is such that tax is currently administered through two key pieces of legislation simultaneously. The Income Tax Assessment Act 1936 and the Income Tax Assessment Act 1997 set the landscape for thousands of other pieces of legislation designed to achieve the goals established in 1910.

In 1997 the Government announced five key principles of tax reform, the outcome of which would be a fairer, more competitive and efficient tax system for all Australians. The implementation was hailed to result in a stronger, more sustainable economy leading to higher productivity, employment and living standards. The message at the time was the existing tax framework was outdated, unfair and unnecessarily complex.

Income tax legislation, for instance had grown from some 120 pages to over 7,000 during its life. In the preceding fifteen years, over 650 individual policy changes to tax had been announced. We were told the tax system was crying out for comprehensive reform. Reform was a critical choice, but essential in the national interest, built on simplicity, consistency and certainty in the law.

However, today we have a tax system every bit as complex and onerous as any of its previous versions. "Reform" has never really been achieved as was intended, following what was to be a twenty-first century approach to the ideology of taxation in this country, we have instead navigated an era of proposal on counter-proposal. Changes have of course occurred, but the outcomes appear to be further away from the original intent. It is estimated that each year some 1,000 legislative changes are proposed.

As the ATO is charged with implementing new tax protocols, systems and training; new processes are also required for them to carry out their role. At this level of activity alone it's obvious why true reform is slow to occur and inefficient when it arrives. Despite the perceptions, or even the realities of our tax system, if you earn income in this country you have a legal obligation to deal with the ATO, whether that is directly, or indirectly via your tax agent or accountant such as IQ Tax.

Failing to do so has many undesirable outcomes including simple fines, seizure of assets and even custodial sentences. The burden of compliance with all of the complex rules is enough for some to engage in tax evasion or avoidance and the risks associated with that conduct are quite large and can have unforeseen impacts on careers, families and futures. While all evasion is punished at some level, the intensity of punishment is often reflective of the intention of the taxpayer. Those intentionally evading taxes are frequently accused of a criminal offence and the current social and political climate regularly sees serious and intentional tax evasion rewarded with significant periods of incarceration. At the other end of the spectrum, unintentional evasion is usually the subject of corrective action, small fines and ongoing monitoring.

It is common for taxpayers to believe that simple things like declaring lower income or not reporting cash payments are less serious than the type of tax fraud seen in the media. While the punishments may not be as severe, it is a mistake to believe that the offences are different. In fact, the ATO takes these things very seriously because they are committed much more frequently than the larger offences, which means as a society they actually cost the economy much more than the larger offences.

In any event these **"smaller offences" are more easily detected** because the ATO has access to significant technology and is now in receipt of data from almost all financial institutions, fund managers and major companies. Consequently, the chances of cheats being discovered are very high. Additionally, reviews by the ATO of social media, newspapers, awards of large tenders and similar information is performed almost daily. The information gathered from these sources is collated, indexed and always followed up.

The minimisation of taxes is, however, completely legal, and you are within your rights to manage your financial affairs in such a way that you pay no more than the amount you are obliged to pay. Therein lies the distinction between evasion and minimisation in that evasion is attempting to pay less than you are legally obliged to pay, while minimisation is ensuring that you pay no more than that.



Notwithstanding this minimisation can be detrimental if it lacks strategy and purpose. Deciding to work minimum hours or forego the additional earning opportunity, for instance with a mindset of **“why bother to earn any more for the taxman...”** will of course reduce the amount of tax you pay, but to what end at what sacrifice? Minimising taxes in this manner is short sighted and oblivious to the greater opportunity, increased superannuation, increased borrowing capacity and increased investment opportunity that can come with a higher salary.

***“I am not evading tax in any way, shape or form... Now of course I am minimising my tax, if anybody in this country doesn't minimise their tax, they want their heads read because, as a Government, I can tell you they're not spending it that well that we should be donating extra”.*** - **Kerry Packer**

Its difficult to argue with the logic and also with a man of his stature and success. While the landscape of Government and society has radically changed since Kerry Packer made that statement, the attitude it exhibits is still important.

At IQ Tax, we believe that tax minimisation is somewhat of a loose term, while we frequently advise our clients on how to pay no more tax than they are required to, we do that in the context of a balanced, wholistic financial exercise. We find this pragmatic approach that recognises tax as an important part of an overall strategy yields the best results.

**Reward still exists within the tax system** for open, honest and transparent participation through an array of deductible and concessional measures. The fact is, and has been for a long time, that successive Governments have actively encouraged and rewarded eligible Australians who participate in the tax system, take responsibility for investing in their own success and fund their own retirements.

Benefits for those willing to participate genuinely in the system and meet their obligations come in the form of personal and community gains. Evidence of the social impact of an efficient and properly administered tax system surround us daily. Along the east coast of Australia, as you fly into numerous airports from Melbourne to Brisbane, you will see a huge network of infrastructure, parks, beaches, stadiums, hospitals, the airport itself, all connected through complex conduits of transport and all in one way or another influenced or benefitted from the taxation revenue collected by the Government. It can't be underestimated how much our modern, vibrant and safe country is a result of our vision as a nation being implemented through the work of the ATO and the taxes we pay.

Personal gains can also be seen in the way we live, work and socialise. IQ Tax clients consider themselves active participants in this system, while also being financially astute and contributors to the Australian way of life. They are, of course, not selflessly forging ahead and simply paying taxes for the greater good. They are working closely with IQ Tax on efficient and strategic tax planning throughout the year to participate in a way that benefits them first and still leaves enough resources for their communities to enjoy a better way of life.

IQ Tax is a member of a group of companies that collectively bring an award winning holistic approach to the financial affairs of clients. This relationship benefits clients by assessing sources of current income, potential future wealth, strategic opportunities for tax efficiency and family group performance.

This comes from a detailed proprietary matrix of expert information, long standing wealth principles and intimate knowledge of our client's circumstances. We also conduct periodic review of our clients circumstances, because there is nothing worse than your adviser telling you what you should have done, when its too late to do anything. These reviews frequently include examining:

1. Cash holdings and potential efficient distributions;
2. Tax efficient savings, investments and debt reduction strategies;
3. Correct structuring of interest payment on borrowings against investments;
4. Correct accounting of capital allowances and depreciation for real property assets;
5. Available benefits of salary packaging or similar income structuring techniques;
6. Your eligibility for any available concessions or current incentive programs from State and Federal Governments;
7. Utilisation of capital losses or commercial debts laying dormant in your business;
8. Timing benefits of bringing forward expenditure or deferring income to later tax periods;
9. Accurately capturing all of your deductible expenditure'
10. Review of private health care arrangements; and
11. Potential integration with other professional disciplines such as financial or estate planning.

This level of service and professional review sees our clients maximising their earning potential, efficiently managing their taxation obligations and being ready to pursue opportunities when they arise. In their family groups, our clients are often implementing effective and strategic tax planning, investing in property, realising mortgage reduction outcomes, aware and in control of their superannuation choices and comprehensively insured through tax efficient policies.

**It is imperative that as you engage in tax planning** as an element of a holistic plan, you seek appropriate professional advice. You are ultimately responsible for your compliance with the law and as we have discussed above the punishment for even unintentional non-compliance can be quite unsatisfactory.

Using the services of IQ Tax and the group that it is a member of, enables you to turn the complexities of the taxation system into opportunities. Once the burden of compliance is properly handled by ethical professionals, you are then free to engage in open and strategic discussion with a view to improving your own future.

**IQ Tax has a team of qualified professionals to provide you with comprehensive tax advice,** and more importantly can give you that advice as an integral part of a larger financial strategy. The lifestyle that you desire is within reach when you engage with us, implement suitable strategies and take a disciplined approach to your own success.