BUDGETS AND BENCHMARKS

Federal Budget

The Federal Budget delivered on 13th May, 2014 held little surprises given the amount of pre-budget "leaks" and as everyone anticipated, it was predominantly "bad news". From the 1st July, 2014 the highest marginal tax rate will increase by a 2% TBD levy (not a new tax) from 45% to 47% on incomes above $180,000. The Medicare levy rate will also increase from 1.5% to 2.0% to fund the National Disability Scheme. This means income earned over $180,000 will be taxed at 49% and if you don't have private health insurance, 50%.

The value of a $1,000 expense/ tax deduction is not the same for everyone because it depends on your tax rate. If your income is $100,000/tax rate 39%, a $1,000 expense saves you $390 in tax. If your income is $200,000/tax rate 49%, a $1,000 expense saves you $490 in tax. Consider this example, your income in 2014 is likely to be around $160,000 and you expect it to rise to $200,000 in 2015 but you currently have the opportunity to prepay interest of $20,000 on your negatively geared rental property. You might consider <u>not</u> prepaying the interest now but in 2015, because it will save you $2,000 more in tax by delaying the expense to a time when you are subject to a higher rate of tax.

Compulsory superannuation rates for employees will increase on 1st July 2014 from 9.25% to 9.50%. This is an additional direct cost for the employer/dental surgery and because super contributions are included in the calculation of WorkCover premiums and payroll tax, then these costs also increase.

You should also note that the Fringe Benefits Tax rate (FBT) will also increase to 49% from 1st April, 2015 and is another reason why we warn our client <u>NOT</u> to purchase motor vehicles in their company or trust. Even though no log book is required for the company/trust to claim 100% of all motor vehicle expenses (subject to luxury car limits), it is possible that the FBT or employee contribution <u>will</u> <u>exceed</u> the deduction and you are left paying the Tax Office for the privilege of driving your own car!

The immediate write off for the purchase of equipment under $6,500 ceased at 31st December 2013 which means care needs to be taken in preparation of the 2013/14 tax return to ensure claims are made correctly. The $5,000 write off for motor vehicles also ceased half way through the year.

Benchmarking

The Australian Tax Office (ATO) has benchmarking ratios for over 100 industries and has dental bench marks for dental surgeries and dental specialists. The ATO uses these benchmarks which are sourced from tax returns and business activity statements to predict turnover, detect possible exaggerated deductions or undeclared/unbanked cash income.

The benchmarking ratios are very basic and only compare labour costs, rent and total expenses to turnover. This is generally insufficient to be of any real assistance to a dental practice.

The ATO benchmarking ratios are also statistically flawed for two main reasons;

1. Date is sourced from the business schedule of individual tax returns so sole trader dental practices are mixed in with (40%) contracting dentists. Contracting dentists generally will not have rental or labour costs so the average costs are not applicable to <u>either</u> the practice or a contracting dentist.
2. Data sourced from dental practices operating through a trust/company will have legitimate tax deductible expenses that are not related to the true operating costs of the practice, such as wages paid to family members, motor vehicle costs and personal expenses such as maximum super contributions or income protection insurance premiums.

In my opinion, using ATO benchmarking ratios would provide no assistance to a dentist who wants to better manage their practice. The ADA publishes a nationwide dental practice survey every three years with the last one being 2010, so the 2013 survey should be available shortly. The information in this survey is much more comprehensive and broken down on a State by State basis. Care must be taken to thoroughly read and understand how the ratios are calculated as the expenses are often shown as a percentage of total expenses rather than as a percentage of total revenue.

Most dental practitioners will need help to compare their financial ratios with industry benchmarks but more importantly is to seek specialist advice to determine what the results mean to you and how the information can be used to improve your practice.

In 2015/16, company tax rates will fall by 1.5% to 28.5%. The company tax rate will then be approaching half of what an individual's tax rate is on income over $180,000. This will create even more incentive for dentists to correctly structure their financial affairs via service trusts and companies.

Be aware that where your income exceeds $300,000 then your superannuation contributions are subject to an additional 15% tax and if your income is over $250,000 and you have other business interests that incur a loss, you are unable to use that loss to reduce your dental income.

If you require advise on tax structures or assistance with benchmarking your practice, you can call Albert Gigl on 03) 8825 5400 for a free initial consultation. For your convenience, MW Partners is located on the same floor as the ADAVB at level 3, 10 Yarra Street South Yarra.