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MONTHLY TAX NEWSLETTER

Practice Update

Please read this update and contact this office if you have any queries

JUNE 2022

ATO priorities this tax time

The ATO has announced four key areas that it will be focusing on for Tax Time 2022:

- Record-keeping.
- Work-related expenses.
- Rental property income and deductions.
- Capital gains from crypto assets, property, and shares.

Before claiming income tax deductions for their expenses, taxpayers must ensure:

- they spent the money themselves and were not reimbursed;
- if an expense is for both income-producing and private use, only the portion relating to producing income is claimed; and
- they have a record to prove it.

Avoid double dipping on your deductions

Taxpayers are reminded not to make the mistake of 'double dipping' on deductions (that is, claiming expenses twice) in their tax return this year.

Some of the 'double dipping' mistakes commonly made relate to the following deductions:

- Working from home expenses

A common mistake involves using the 'shortcut method' to claim working from home expenses and then claiming additional amounts for expenses such as mobile phone and internet bills, as well as the decline in value of equipment and furniture.

The working from home shortcut method is all-inclusive.

There are three methods available to claim a deduction for working from home expenses depending on individual circumstances; namely, the shortcut, fixed rate and actual cost methods.

The method that gives the best outcome can be used, as long as the eligibility and record-keeping requirements for the chosen method are observed.

- Car expenses

A common mistake involves using the 'cents per kilometre' method to claim car expenses, and then double dipping by separately claiming expenses such as fuel, car insurance, and registration.

The cents per kilometre rate is all-inclusive and already covers decline in value, registration, insurance, maintenance, repairs, and fuel costs.

- Reimbursed expenses

Taxpayers cannot claim expenses that have already been reimbursed by their employer.

Get ready for super changes from 1 July 2022

As the new financial year approaches, employers need to be aware of two important super changes.

From 1 July 2022, employees can be eligible for super guarantee ('SG'), regardless of how much they earn, because the $450 per month eligibility threshold for when SG is paid has been removed.

Employers only need to pay super for workers under 18, when they work more than 30 hours in a week.

Furthermore, the SG rate will increase from 10% to 10.5% on 1 July 2022. Employers will need to use the new rate to calculate super on payments made to employees on or after 1 July, even if some or all of the pay period is for work done before 1 July.

Employers should update their payroll and accounting systems to ensure they continue to pay the right amount of super for their employees.

ATO to start clearing backlog of ENCC release authorities

Due to "unavoidable delays caused by improvements to" its systems, the ATO will start issuing requests to release excess contributions and other charges for individuals who did not make an election on the tax treatment of their excess non-concessional contributions ('ENCC') for prior financial years.

This may result in a higher than normal number of release authorities for members of superannuation funds over the coming months while the ATO works through the backlog.

ATO warns about GST fraud

Taxpayers are being warned to be on the lookout for dodgy online ads, often on social media platforms, promising easy GST refunds.

The ATO recently issued a media release about large-scale GST fraud attempts exceeding $850 million, that involve customers setting up an ABN without operating a business, and then submitting fictitious BAS statements to get a GST refund.

The ATO said it has already successfully stopped $770 million in attempted fraud before payment.

"The people who are involved in these activities aren't accidentally ticking a box on an online form. They're signing to say that they've set up an ABN for a business that doesn't exist, then lodging a BAS with false information on it, to receive GST refunds that they are not entitled to," the ATO said.

Taxpayers who think they've been involved in this arrangement are urged to let the ATO know (before the ATO contacts them) by calling 1300 130 017.

Confidential reports of suspected tax evasion or crime can be made online (visit ato.gov.au/tipoff) or by calling the ATO's Tax Integrity Centre on 1800 060 062.

Employers need to prepare for changes under STP expansion

Single Touch Payroll ('STP') reporting has been expanded.

This expansion, known as 'STP Phase 2', means that employers will need to start reporting extra information to the ATO each time they run their payroll.

Some digital service providers ('DSPs') needed more time to update their products and applied for deferrals, which cover their customers – therefore, when an employer can start Phase 2 reporting depends on when their payroll product is ready.

Employers that have not already started Phase 2 reporting should ask their DSP when their product will be ready (if they don't already know).

Employers need to be across the changes and get ready to start Phase 2 reporting. This includes:

- checking if changes need to be made to payroll pay codes/categories so they align with Phase 2 requirements;
- reviewing allowances employers pay and how they need to be reported in Phase 2;
- understanding changes to salary sacrifice reporting; and
- understanding how to assign an income type to each payment.

The ATO is also reminding employers that amounts paid to 'closely held payees' should now be reported through STP.

A 'closely held payee' is an individual directly related to the entity they receive payments from. For example, family members of a family business, directors or shareholders of a company and beneficiaries of a trust.

There are concessional reporting options for closely held payees reporting which include the following:

- Reporting actual payments on or before the date of payment (along with arm's length employees).
- Reporting actual payments quarterly.
- Reporting a reasonable estimate quarterly.

Editor: Should you have any questions (or require any assistance) about any of the issues raised in this update, please feel free to contact our office.

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2021/22 Individual Tax Return Checklist

Your Checklist

- Claims for deductions ✓
- Receipts for deductions ✓
- Car claims and log books ✓

Please review the information below and contact our office if you need assistance.

Tax saving strategies prior to 1 July 2022

A strategy often used to reduce taxable income (and, in turn, tax payable) in an income year is to bring forward any expected or planned deductible expenditure from a later income year. However, in light of the continued impact of the COVID-19 pandemic, any tax planning for individuals with potentially reduced income for the 2022 tax season may require consideration of deferring any deductible expenditure (if possible).

Resident taxable income thresholds for the 2021/22 income year	Tax Payable[1]
0 – $18,200	Nil
$18,201 – $45,000	19% of excess over $18,200
$45,001 – $120,000	$5,092 + 32.5% of excess over $45,000
$120,001 – $180,000	$29,467 + 37% of excess over $120,000
$180,001 and over	$51,667 + 45% of excess over $180,000

1. *The Medicare levy of 2% generally applies in addition to these rates.*

Common claims made by individuals

The following outlines common types of deductible expenses claimed by individual taxpayers, such as employees and rental property owners, and some strategies for increasing their deductions for the 2022 income year.

1. Depreciating assets costing $300 or less

Salary and wage earners and rental property owners will generally be entitled to an immediate deduction for certain income-producing assets costing **$300 or less** that are purchased before 1 July 2022.

Some purchases you may consider include:

- tools of trade;
- electronic tablets;
- calculators or electronic organisers;
- software;
- books and trade journals;
- stationary; and
- briefcases/luggage or suitcases.

2. Clothing expenses

Individuals may pay for work-related clothing expenses before 1 July 2022, such as:

- ❑ compulsory (or non-compulsory and registered) uniforms, and occupation specific and protective clothing; and
- ❑ other associated expenses such as dry-cleaning, laundry and repair expenses.

3. Self-education expenses

Employees may prepay self-education items before 1 July 2022, such as:

- course fees (but not HELP repayments or student contribution amounts), student union fees, and tutorial fees; and
- interest on borrowings used to pay for any deductible self-education expenses.

They may also bring forward purchases of stationery and text books (i.e., those that are not required to be depreciated).

4. Other work-related expenses

Employees may also prepay any of the following expenses before 1 July 2022:

- Union fees.
- Subscriptions to trade, professional or business associations.
- Seminars and conferences.
- Income protection insurance (excluding death and total/permanent disability).
- Magazine and professional journal subscriptions.

Note: If prepaying any of the above expenses before 1 July 2022, ensure that any services being paid for will be provided within a 12-month period that ends before 1 July 2023. Otherwise, the deductions will generally need to be claimed proportionately over the period of the prepayment.

Information Required

You will need to provide us with information to assist in preparing your income tax return. Please check the following and provide any relevant statements, accounts, receipts, etc., to help us prepare your return.

Income/Receipts:

- ❑ Details of your employer(s) and wages.
- ❑ Lump sum and termination payments.
- ❑ Government pensions and allowances.
- ❑ Other pensions and/or annuities.
- ❑ Allowances (e.g., entertainment, car, tools).
- ❑ Interest, rent and dividends.
- ❑ Distributions from partnerships or trusts.
- ❑ Details of any assets sold that were either used for income-earning purposes or which may be liable for capital gains tax ('CGT').
- ❑ Other Income (e.g., foreign income).

Expenses/Deductions (in addition to those mentioned above):

- Award transport allowance claims.
- Bank charges on income-earning accounts (e.g., term deposits).
- Bridge/road tolls (if travelling on work).
- Car parking (if travelling on work).
- Conventions, conferences and seminars.
- Covid-19 testing costs for work purposes.
- Depreciation of library, tools, business equipment (incl. portion of home computer).
- Gifts or donations.
- Home office running expenses, such as:
  - cleaning;
  - cooling and heating;
  - depreciation of office furniture;
  - lighting; and
  - telephone and internet.
- Interest and dividend deductions, such as:
  - account keeping fees;
  - ongoing management fees;
  - interest on borrowings to buy shares; and
  - advice relating to *changing* investments (but *not* setting them up).
- Interest on loans to purchase equipment or income-earning investments.
- Motor vehicle expenses (if work-related).
- Overtime meal expenses.
- Rental property expenses, including:
  - advertising expenses;
  - council and water rates;
  - insurance;
  - interest;
  - land tax;
  - property management fees;
  - genuine repairs and maintenance; and
  - telephone expenses.
- Superannuation contributions.
- Sun protection items.
- Tax agent fees.
- Telephone expenses (if work-related).
- Tools of trade.

2021/22 Year-end Checklist for Business

Many business clients like to review their tax position before the end of the income year and evaluate any strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for profitable small businesses is based around accelerating deductions and deferring income.

Small Business Entities ('SBEs') – i.e., those with an aggregated turnover of less than $10 million – often have greater tax planning opportunities compared to other businesses, due to certain concessions generally only applying to them. SBEs usually also have the flexibility to pick concessions that suit their circumstances. However, for 2021/22, many of the SBE concessions are now also available to medium-sized businesses ('MSBs'), i.e., businesses with an aggregated turnover of less than $50 million.

The following are common strategies that may be considered for **all** business taxpayers.

Maximising deductions for non-SBE business taxpayers

Deductions can be maximised for non-SBE business taxpayers by **prepaying expenses**, **accelerating expenditure** and/or **accruing expenses** that have been incurred.

Prepayment strategies

Any part of an expense prepayment relating to the period up to 30 June is generally deductible.

In addition, non-SBE taxpayers may generally claim prepayments in full for expenditure that is:

- under $1,000;
- made under a 'contract of service' (e.g., salary and wages); or
- required to be incurred under law.

Note: Medium-sized businesses ('MSBs') may fully deduct prepayments made before 1 July 2022 (refer below).

Accelerating expenditure (including depreciation deductions)

Accelerating expenditure involves bringing forward expenditure on regular, on-going deductible items.

In fact, this is a useful strategy for any business taxpayer (i.e., including SBEs) because businesses can generally claim deductions for expenses they 'incurred' during 2021/22, even if the expenses have not actually been paid by 30 June 2022.

Examples of accelerated expenditure that may be incurred and claimed as a tax deduction in 2021/22 by a business taxpayer include the following:

- ❑ **Repairs.**
- ❑ **Maintenance.**
- ❑ **Consumables/spare parts.**
- ❑ **Advertising.**
- ❑ **Fringe benefits.** Any benefits to be provided, such as property benefits, could be purchased and provided prior to 1 July 2022.
- ❑ **Superannuation contributions** made to a complying fund, to the extent the contributions are actually made (i.e., they cannot be accrued but must be *paid* by 30 June 2022).

In addition to accelerating expenditure on business items such as those listed above, for 2021/22, non-SBE businesses may claim the following accelerated depreciation deductions for **depreciating assets** first used (or installed ready) for business use by **30 June 2022**:

- ❑ Non-SBEs with an aggregated turnover of (generally) ***less than $5 billion*** can fully expense the cost of eligible assets as well as eligible improvements, **regardless of cost**.

  Note: Non-SBEs may choose to opt out of full expensing on an asset-by-asset basis.

- ❑ If full expensing does **not** apply, or an opt-out choice is made, non-SBEs can generally claim the following depreciation deductions (if applicable) for their business assets:
  - Assets costing less than $1,000 may be allocated to a Low Value Pool and depreciated at a rate of 18.75% (in 2022) and 37.5% thereafter.
  - In most other cases, the asset's cost is depreciated over its effective life (as determined by the taxpayer or the ATO).

Accrued expenditure

Business taxpayers (including SBEs) are entitled to a deduction for expenses incurred as at 30 June 2022, even if they have not yet been paid.

Examples of expenses that may be accrued and claimed as a tax deduction in 2021/22 include:

- ◆ **salary or wages and bonuses** accrued for the number of days that employees have worked but have not been paid as at 30 June 2022;
- ◆ accrued **interest** outstanding on a business loan that has not been paid;
- ◆ **commission** payments owing to employees or other external parties;
- ◆ the **fringe benefits tax ('FBT') instalment** for the June 2022 quarter, if it is due but not payable until July 2022; and
- ◆ **directors' fees payable** as at 30 June 2022, where the company is definitively committed to the payment.

Maximising deductions for SBE taxpayers

Deductions can be maximised for SBE taxpayers by **accelerating expenditure** and/or **prepaying** deductible business expenses (and also by **accruing expenditure** – refer above).

Accelerating depreciation expenditure

In addition to accelerating expenditure on various business items (refer above), for 2021/22, SBE taxpayers that use the simplified SBE depreciation rules may claim the following deductions in relation to **depreciating assets***:*

- ❑ A full deduction for the cost of eligible assets first used or installed ready for business use by 30 June 2022 (as well as eligible improvements), **regardless of cost**.

  *Note: SBE taxpayers that use the simplified SBE depreciation rules **cannot** directly opt out of fully expensing depreciating assets. Instead, they will need to firstly opt out of the simplified SBE depreciation rules entirely, and then opt out of full expensing an asset-by-asset basis.*

- ❑ The SBE closing pool balance (before current year deductions), if any, will be fully claimed in the 2022 income year.

  *Note: SBE taxpayers using the simplified SBE depreciation rules **cannot** opt out of full expensing with regards to their SBE general pool (i.e., even if they opt out of the simplified SBE depreciation rules).*

If appropriate, SBE taxpayers should consider purchasing and using (or installing ready for use) these items by 30 June 2022.

Prepayment strategies (SBEs and MSBs)

SBEs and medium-sized businesses ('MSBs') that make prepayments before 1 July 2022 can choose to claim a full deduction in the year of payment (i.e., in 2021/22), if they cover a period of no more than 12 months (ending before 1 July 2023).

Otherwise, the prepayment rules are the same as for non-SBE taxpayers.

The kinds of expenses that may be prepaid include:

- ❑ **Rent** on business premises or equipment.
- ❑ **Lease payments** on business items such as cars and office equipment.
- ❑ **Interest** – check with your financier whether it's possible to prepay up to 12 months interest in advance.
- ❑ **Business trips.**
- ❑ **Training courses** that run from 1 July 2022.
- ❑ **Business subscriptions.**

Information Required

This is some of the information we will need you to bring to help us prepare your income tax return:

- ❑ Stock-take details as at 30 June 2022.
- ❑ Debtors listing (including a list of bad debts written off) as at 30 June 2022.

  Note: To claim a tax deduction, the debt must be written off on or before 30 June.

- ❑ Creditors listing as at 30 June 2022.