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Client Newsletter

December 2022

OUR SERVICES

SWON provides a comprehensive range of business advice and accounting services, with specialists in the areas of taxation, business services, audit and assurance services and financial planning. Our long history of commitment to service excellence and client satisfaction has contributed to our current leadership status. We can optimise your company's profitability through;

- budgeting & planning
- preparation of financial statements
- business and ownership structures
- trusts, asset protection and estate planning
- family business advice
- superannuation advice
- retirement planning
- access to accounting staff

FEATURES

MERRY CHRISTMAS

On behalf of all the team we wish you a safe and happy Christmas and look forward to working with you again in 2023.

Our office will be closed from 11:00am Friday 23rd December & will re-open Wednesday 11th January 2023.

CHANGES AT SWON

From February 2023, bookkeeping services will commence at SWON. Due to increased demand for bookkeepers and bookkeeping queries, we will setup a bookkeeping department that our clients will be able to access.

Services offered will include your monthly or quarterly bookkeeping required for activity statements, payroll/STP compliance, superannuation obligations, and general software queries for those using their own accounting software such as Xero and MYOB.

This will also enable our accountants to concentrate on more value-added services when completing your jobs.

SUPERANNUATION OBLIGATIONS

Superannuation guarantee charge
The minimum level of superannuation contribution is 10.5% for the 2022/23 year, and must be received by the fund before the quarterly due date to be deductible and avoid the super guarantee charge.

From 1 July 2022 the $450 per month eligibility threshold for when SG is paid was removed for all employees over 18 years. For those under 18 years old, you pay it if they work more than 30 hours in a week.

Pay and report electronically
There are 3 ways you can pay and transfer data to your employees' super fund:

1. Through a SuperStream compliant system/software.
2. Through a commercial clearing house or the Small Business Superannuation Clearing House.
3. Through your super fund, if it offers this service.

If you have not paid on time, then you are required to:

- calculate the super guarantee charge;
- lodge the Superannuation guarantee charge statement with the ATO; and
- pay the superannuation guarantee charge

We have seen an increase in activity by the ATO where they have been issuing SGC audits for those failing to meet these obligations.

SINGLE TOUCH PAYROLL (STP)

With STP Phase 2 reporting commencing 1 January 2022 and the transitional concessions no longer available, all employers should now ensure that they are meeting their STP reporting obligations.

Employers are required to report a pay event to the ATO on or before the pay day using a compliant STP-enabled software (or your tax agent). Each time you send the ATO your STP report, it will include minimum reporting requirements for you to meet your STP obligations.

A finalisation declaration is a declaration in the approved form lodged by 14 July each year indicating you have fully reported for the financial year for each employee.

ATO KEY CHANGES IN 2022

Working from home deductions
From 1 July 2022, the ATO states that taxpayers who are working from home can claim deductions based on their actual expenses or they can potentially adopt a revised fixed rate method which uses a rate of 67 cents per hour.

The running expenses covered by this method are:

• Energy expenses (electricity and/or gas) for lighting, heating/cooling and electronic items used while working from home;
• Mobile and/or home telephone expenses;
• Internet expenses; and
• Stationery and computer consumables.

You must keep and retain relevant records in respect of the time they spend working from home and for the additional running expenses they are incurring.

Downsizer contributions
The age that individuals can make downsizer contributions to their superannuation from the proceeds of selling their house from the 60 down to age 55.

Downsizer contributions allow eligible individuals to make a contribution of up to $300,000 to their super from the proceeds of the sale or partial sale of their home without it counting towards their contribution caps.

FBT exemption for electric cars
The Bill containing the FBT exemption for electric cars passed through Parliament on 28 November 2022 and is awaiting Royal Assent.

Legislation proposed for skills boost, training boost and digital games offset
• The introduction of a digital games tax offset. This is a refundable tax offset for companies equal to 30% of the company's total qualifying Australian development expenditure, which is aimed at expenditure incurred in relation to the development of a game that is made available to the general public over the internet. The offset is capped at $20 million per company (or group of companies). The offset will be available for expenditure incurred from 1 July 2022. • The skills and training boost, which provides small businesses (with aggregated annual turnover of less than $50 million) with access to a bonus deduction equal to 20% of eligible expenditure for external training provided to their employees. The additional deduction is available for expenditure incurred from 29 March 2022 until 30 June 2024. • The technology boost, which provides small businesses with a bonus deduction equal to 20% of their eligible expenditure on expenses and depreciating assets for the purposes of their digital operations or digitising their operations. The bonus deduction is limited to $20,000 (i.e. on eligible expenditure up to $100,000) and applies to expenditure incurred from 29 March 2022 until 30 June 2023

Director penalties
After a reasonably quiet period during the COVID-19 pandemic, the Australian Taxation Office (ATO) has resumed its full scale debt collection activities which include issuing company directors with a Director Penalty Notice (DPN).

Under the director penalty regime, company directors may become personally liable for a penalty equal to the value of certain company tax obligations, including superannuation, PAYG withholding and GST, if they are not paid when due.

AVOIDING THE FBT CHRISTMAS GRINCH

It's that time of year again - what to do for the Christmas party for the team, customers, gifts of appreciation for your favourite accountant (just kidding), etc. Here are our top tips for a generous and tax effective Christmas season:

For your business

What to do for customers?

The most effective way of sharing the Christmas joy with customers is not necessarily the most tax effective. If, for example, you take your client out or entertain them in any way, it's not tax deductible and you can't claim back the GST. There are specific rules designed to prevent deductions and GST credits from being claimed when the expenses relate to entertainment, regardless of whether there is an expectation of generating goodwill and increased business sales. Restaurants, a show, golf, and corporate race days all fall into the 'entertainment' category.

However, if you send your customer a gift, then the gift is tax deductible as long as there is an expectation that the business will benefit (assuming the gift does not amount to entertainment). Even better, why don't you deliver the gift yourself for your best customers and personally wish them a Merry Christmas. It will have a much bigger impact even if they are not available and the receptionist tells them you delivered the gift.

Tax & Christmas

For GST registered businesses (not tax exempt) that are not using the 50-50 split method for meal entertainment.

	Exempt from FBT?	Tax deductible	GST credits
Christmas party on employer premises on a weekday			
Employees	Yes	No	No
Associates of employee (spouses etc.)	If <$300 per head	If $300 or more per head	If $300 or more per head
Customers	N/A	No	No
Christmas party (employer premises on a weekend or external venue)			
Employees	If <$300 per head	If $300 or more per head	If $300 or more per head
Associates (spouses etc.)	If <$300 per head	If $300 or more per head	If $300 or more per head
Customers	N/A	No	No
Christmas gifts (assuming the gift doesn't involve entertainment)			
Employees	If <$300 per head	Yes	Yes
Associates (spouses etc.)	If <$300 per head	Yes	Yes
Customers	N/A	Yes	Yes
Christmas lunch with customer at external venue			
Employees	If <$300 per head	If $300 or more per head	If $300 or more per head
Associates (spouses etc.)	If <$300 per head	If $300 or more per head	If $300 or more per head
Customers	N/A	No	No

From a marketing perspective, if your budget is tight, it's better to focus on the customers you believe deliver the most value to your business rather than spending a small amount on every customer regardless of value. If you are going to invest in Christmas gifts, then make it something people remember and appropriate to your business.

You could also make a donation on behalf of your customers (where your business takes the tax deduction) or for your customers (where they receive the tax deduction). Donations to deductible gift recipients (DGRs) above $2 are often tax deductible and can make an active difference to a cause.

What to do for your team?

Christmas is expensive. Some businesses simply can't afford to do much because cashflow is too tight. Expectations are high so if you are doing something then it's best not to exacerbate cashflow problems and take advantage of any tax benefits or concessions you can.

Christmas parties

If you really want to avoid tax on your work Christmas party then host it in the office on a workday. This way, Fringe Benefits Tax (FBT) is unlikely to apply regardless of how much you spend per person.

Also, taxi travel that starts or finishes at an employee's place of work is exempt from FBT. So, if you have a few team members that need to be loaded into a taxi after over indulging in Christmas cheer, the ride home is exempt from FBT.

If your work Christmas party is out of the office, keep the cost of your celebrations below $300 per person if you want to avoid paying FBT. The downside is that the business cannot claim deductions or GST credits for the expenses if there is no FBT payable in relation to the party.

If the party is held somewhere other than your business premises, then the taxi travel is taken to be a separate benefit from the party itself and any Christmas gifts you have provided. In theory, this means that if the cost of each item per person is below $300 then the gift, party and taxi travel can potentially all be FBT-free. Just remember that the minor benefits exemption requires a number of factors to be considered, including the total value of associated benefits provided across the FBT year.

If entertainment is provided to employees and an FBT exemption applies, you will not be able to claim tax deductions or GST credits for the expenses.

If your business hosts slightly more extravagant parties and goes above the $300 per person minor benefit limit, you will pay FBT but you can also claim a tax deduction and GST credits for the cost of the event. Just bear in mind that deductions are only useful to offset against tax. If your business is paying no or limited amounts of tax, a tax deduction is not going to help offset the cost of the party.

Christmas gifts for staff

$300 is the minor benefit threshold for FBT so anything at or above this level will mean that your Christmas generosity will result in a gift to the Tax Office as well at a rate of 47%. To qualify as a minor benefit, gifts also have to be ad hoc - no monthly gym memberships or giving one person multiple gift vouchers amounting to $300 or more.

Gifts of cash from the business are treated as salary and wages – PAYG withholding is triggered and the amount is subject to the superannuation guarantee.

Aside from the tax issues, think about what will be of value to your team. The most appreciated gift is the one that means something to the individual. Giving a bottle of wine to someone who doesn't drink, chocolates to a health fanatic, or time off to someone with excess leave, isn't going to garner much in the way of goodwill. A sincere personal message will often have a greater impact than a standard gift.

ATO & TRUST DISTRIBUTIONS

In 2022, we have seen the ATO step-up its aggressive approach to the tax treatment of trusts and trust distributions.

Earlier in the year the ATO released a package of new guidance material that directly targets how trusts distribute income. Many family groups will pay higher taxes (now and potentially retrospectively) as a result of the ATO's more aggressive approach.

The ATO's updated guidance focuses primarily on distributions made to:

- Adult children
- Corporate beneficiaries, and
- Entities with losses

Distributions to beneficiaries who are under a legal disability (e.g. children under 18) are excluded from these rules.

Section 100A does not apply where an agreement has been entered into in the course of an ordinary family or commercial dealing.

It is targeting reimbursement agreements which generally involves making someone presently entitled to trust income in circumstances where both:

- Someone other than the presently entitled beneficiary actually benefits from that income

- At least one party enters into the agreement for purposes that include getting a tax benefit.

The ATO has recently released draft versions of some additional "green zone" examples (i.e., scenarios that would be considered at low risk of attracting ATO compliance resources) that it is considering including in the final version of PCG 2022/D1. These include examples dealing with the following scenarios:

a) A loss trust or company is made presently entitled to trust income and the beneficiary entity is a member of the same family group as the distributing trust. The ATO indicates that this could potentially be considered low risk if the entity receiving the distribution continues to be solvent and it receives the benefit of the income appointed to it.
b) There is a time lag of no more than 2 years between when a beneficiary becomes entitled to trust income and that entitlement being satisfied.
c) There is a testamentary trust that is maintained for the benefit of an individual where the trustee reinvests income to which the individual is presently entitled.
d) There is a business carried on by a trust where two generations of the same family manage that business.

BUDGET UPDATES

FEDERAL BUDGET 2022/2023 2.0

The 2022-23 Budget 2.0 was careful not to create a UK style economic crisis avoiding any policy measures that would add inflationary pressure.

Individuals

• Child Care Subsidy increase
• Paid parental leave reforms
• $4,000 credit to the 'work balance' of age and veteran pensioners
• Aged care reform to cap prices of home care providers and remove exit fees
• Additional funding for floods and natural disasters
• Lifting the income limit on Seniors Health Card
• Income support asset test extended on proceeds of sale of main residence
• One-off increase to total and permanent incapacity payments to veterans
• Community batteries for household solar

Superannuation & investors

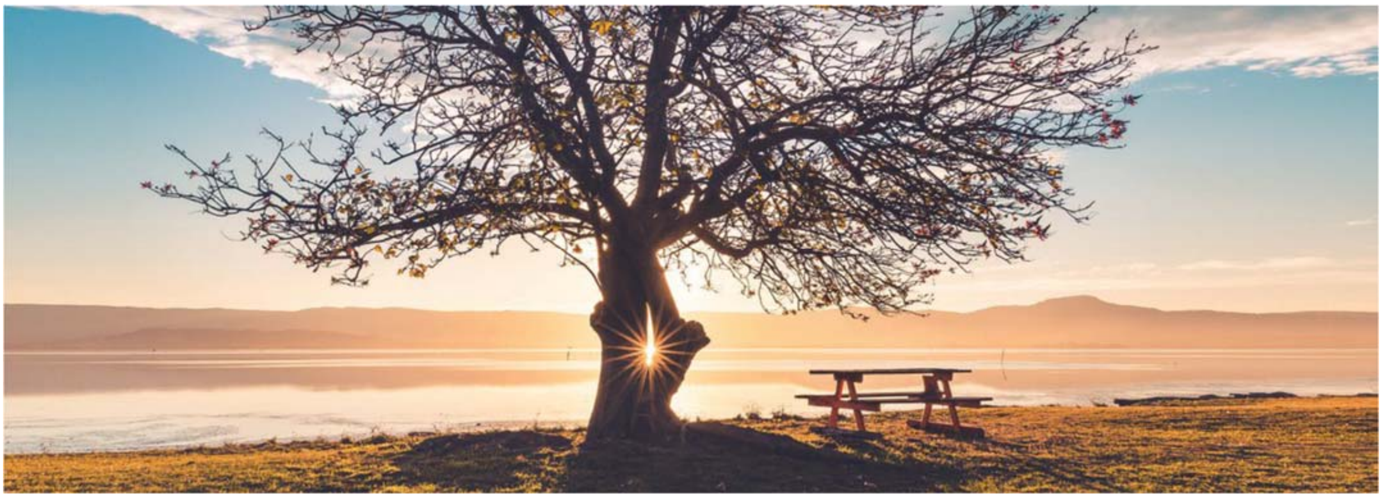
• Change to taxation of off-market share buy-backs by listed companies
• 'Downsizer' eligibility reduced to 55
• Delayed Relaxation of SMSF residency requirements
• 3 year SMSF audit requirement scrapped
• Cryptocurrency not a foreign currency

Business & employers

• Self-assessment of intangible assets removed
• Dramatic jump in penalties for competition and consumer law breaches (from $10m to $50m)
• Energy efficiency grants for SMEs (no detail)
• Ridesharing reporting requirements by platforms delayed
• Thin cap rules introduce earnings based test
• Companies to declare their subsidiaries
• Global entities denied deductions for intangibles

And, a whole lot more money for the ATO to pursue individuals, the shadow economy, and multi-nationals and large public and private enterprises.

NOTE: It is important to remember that some of the highlights above are merely <u>proposals</u> at this stage and are yet to be passed in Parliament and there has been a change of government since these budget announcements.



Market Update

It's December, summer is here and holidays are just around the corner. We take this opportunity to wish you and your family a happy festive season!

The big story on the global economic front continues to be inflation, and how high interest rates will go to tame it. November began with the US Federal Reserve hiking its federal funds target range by another 75 basis points to 3.75-4.00%. There are signs the tough approach is working, with the annual rate of inflation falling from 9.1% in June to 7.7% in October.

In Australia, the Reserve Bank lifted the cash rate another 25 basis points to a decade high of 2.85%. Inflation fell to 6.9% in the year to October, down from 7.3% in September, but remains high and economic signals are mixed. Reserve Bank governor Philip Lowe is keeping a close eye on consumer spending, where higher interest rates are having an impact. Retail trade fell 0.1% in October for the first time this year. And while the ANZ-Roy Morgan consumer sentiment index was up 5.6% to 83.1 points in the last three weeks of November, it remains 22.9 points below the same week last year. But rate hikes are not yet affecting the labour market, with unemployment falling to a 48-year low of 3.4% in October, while annual wages growth rose 1% to 3.13% in the September quarter, the fastest growth in a decade.

The Aussie dollar lifted 3c to around US67c over the month, crude oil prices fell 10% while iron ore lifted 0.5%. Shares remain skittish but positive overall. The ASX200 index rose more than 5% in November while the US S&P500 index was up more than 2%.

Be sure to contact us at Peninsula Financial Group (9783 4999) to discuss the options that are right for you.