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Client Newsletter

June 2023

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 and 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
- bookkeeping services

FEATURES

YEAR END TAX PLANNING

Now is the time to commence the collation of documents for preparation of your 2023 income tax return. It is also the time to commence careful consideration of any pre financial year end tax planning, including the deferral of income, the acceleration of deductions, and other planning initiatives.

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Market Update

As the winter sets in and the end of the financial year approaches, it's a good chance to spend some time tidying up and reviewing your finances.

Concerns over more interest rate rises, along with the drama over the US debt ceiling and the worry that the US Treasury may run out of cash, have affected local markets and the Australian dollar.

The dollar is at its lowest level in six months, at just under US65 cents, while the ASX200 ended the month nearly 3% down thanks also to weaker commodity prices. Energy and mining stocks led the falls. Brent Crude was down 7.5% for the month while iron ore prices hit a six-month low.

Inflation rose 6.8% in the 12 months to April, up from 6.3% in March and the number of housing approvals nosedived in April, down 8.1% after a 1.0% fall in March.

The rising prices have continued to dent consumer confidence. The ANZ-Roy Morgan Consumer Confidence survey has now spent 13 straight weeks at its lowest mark since the 1990-1991 recession. The survey reveals that only 7% of Australians expect good times ahead for the Australian economy in the next 12 months. With less money to go around, retail trade has plateaued over the past six months.

The latest unemployment figures show a slight increase to 3.7% in April and a slight decrease in the participation rate.

The temporary 50% reduction in minimum pension rates for account-based pensions and term allocated pensions, introduced by the Federal Government from 1 July 2019, will end on 30 June 2023. The changes for account-based pension payments are outlined in the table below:

Age on 1 July 2023	Minimum % of account balance members must withdraw each year	
	Current	From 1 July 2023
Under 65	2%	4%
65-74	2.5%	5%
75-79	3%	6%
80-84	3.5%	7%
85-95	4.5%	9%
90-94	5.5%	11%
95+	7%	14%

CHANGES AT SWON

Due to increased demand for bookkeepers and bookkeeping queries, we have setup a dedicated bookkeeping department that our clients are able to access.

Services offered include 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, MYOB, Reckon and QuickBooks.

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

BUSINESS YEAR END TAX PLANNING

There are various legitimate ways to minimise the tax liability in your business. This can be achieved by applying the following strategies which will postpone the derivation of revenue and bring forward or maximise deductions.

- Write off all known **bad debts** before 30 June.

- Pay **contributions to superannuation** funds prior to 30 June. It is essential that the fund receive and bank the cheques before 30 June.

- **Capital Gains Tax** tactics:
  - Advance sale of assets that will produce a capital loss to offset capital gains already made during the year.
  - Defer the sale of assets that will result in a capital gain, particularly if there are no losses to offset.

- Ensure **employee bonus** and **director fee** obligations are incurred before year end, even if payment is made after 30 June.

- Review the **asset register** and write off any assets no longer in use. For new plant purchased or constructed during the year, businesses may be entitled to an immediate deduction. Otherwise, depreciation rates are determined by reference to its effective life with proportionate claims only allowed in the first year.

- **Management fees** should reflect the services provided and agreements drawn in advance. Deductions are not allowable when the fee is not commercially sustainable and arm's length (TR 2006/2).

- **For prepaid expenditure** such as rent, insurance or advertising:
  - For business taxpayers with an annual turnover of less than $50 million, an outright deduction can be claimed providing the expenditure is less than $1,000 or the expenditure has an eligible service period of 12 months or less and must end in the income year after the prepayment was incurred.
  - For businesses with a turnover greater than $50 million deductions are allowable proportionately over the period to which the services relate. Note, however that prepayments of less than $1,000 are still deductible when the payment is made.

In addition to these planning techniques, there are a number of areas that all clients should be aware of as the tax year rapidly comes to a close. If these apply to you or your business, please ensure that they are addressed in sufficient time for the appropriate action to be concluded before the 30 June deadline.

Stocktake

All businesses that hold stock are strongly advised to conduct a physical stocktake as at 30 June. It is our experience that estimates can be quite inaccurate. Particular attention should be given to valuing stock at the lower of cost or market value (excluding GST), including allowing for slow moving or obsolete stock.

Private Company Loans

Loan accounts owing by shareholders and employees should be repaid before year end. This is very complicated legislation, so please contact us for advice.

Insurances

All your insurances should be reviewed at least annually. Over time, and with the ever-changing types of insurance available, many policies are either inadequate or inappropriate. Reviews should cover the following:

- are all risks covered?
- are the sums insured adequate?
- are the premiums competitive?

Due to the state of the insurance market, clients are urged to start this process well in advance of the renewal date.

To discuss personal insurance options, please contact Lyle Weir our financial planner at Peninsula Financial Group (9783 4999).

PERSONAL RETURN CHECKLIST

Please compile lists of data as appropriate.

Income

☐ Payment summaries (Note: for most taxpayers their income statement will be issued via their myGov account and we will obtain the information directly from the ATO)
☐ Interest earned and any TFN withholding
☐ Dividend/Distribution statements
☐ Investments sold (i.e., Shares, property)
☐ Rental property statements
☐ Director's fees
☐ Pensions
☐ Unemployment benefits
☐ Termination payments
☐ Royalties
☐ Insurance proceeds

Deductions

Work Related (if paid before 1 July can be claimed this year)
☐ Subscriptions
☐ Professional memberships
☐ Union Dues
☐ Uniform/Laundry
☐ Travel
☐ Motor vehicle costs, plus log book data
☐ Home office hours/expenses

Other Deductions
☐ Gifts/donations (only if over $2)
☐ Insurances – income protection
☐ Investment deductions - interest
☐ Personal (not employer sponsored) superannuation contributions

Other Items

☐ Details of dependent children
☐ EFT details for refunds
☐ Spouse income details if we do not complete your spouse's income tax return.

If you wish to claim expenses in relation to your employment, please ensure you have receipts and other satisfactory substantiation data.

When it comes to the ATO's focus on record keeping and work-related expenses the ATO provides a reminder on the three 'golden rules' for claiming deductions:

- The taxpayer must have spent the money and not been reimbursed.
- If the expense is for a mix of income producing and private use, taxpayers can only claim the portion that relates to producing income.

They must have a record to prove it.

Capital Gains Tax

If you have sold any assets (other than private motor vehicles) during the financial year you must provide details. Any property acquired after 19 September 1985 and then subsequently sold for a profit must be fully disclosed. Copies of relevant documents should be supplied for both purchase and sale, including dates and financial details. If an asset was acquired or disposed of under a contract, the time of acquisition or disposal for tax purposes is the time of making the contract.

Employee Share Schemes

All discounts on shares and options provided by an employer are assessed in the income year in which they are acquired. There are however some exceptions, so please contact us for further information.

ELECTRONIC FUND DETAILS

Bank details will need to be included for most returns where a refund is expected. As well as for individual returns, this will also include company, self- managed superfunds and FBT returns.

This information should be provided annually even if there is no change from the previous year. Details required are:

- Account Name
- BSB number
- Account number

SUPERANNUATION – KEY RATES

Concessional Contributions

The limit for Employer contributions and Personal contributions claimed as a tax deduction by an eligible individual for the 2023 financial year is $27,500 up until the age of 75.

From 2020 carry-forward rules allow you to make extra concessional contributions above the general concessional contributions cap. To use your unused cap, you must meet two conditions:

- Your total super balance at the end of 30 June of the previous financial year is less than $500,000.
- You made concessional contributions in the financial year that exceeded your general concessional contributions cap.

The amount of unused cap amounts you will be able to carry-forward will depend on the amount you have contributed in previous years, starting from 2019. You can use caps from up to five previous financial years. The oldest available unused cap amounts are used first.

For Division 293 tax purposes, your concessional contributions will be counted, but not your excess concessional contributions.

The cap amounts are calculated when the money is received by the superannuation fund. If your June superannuation is not paid to the fund until July then it will be included in the following year cap. Therefore, if you are close to the cap limit, it is important to check with the fund to verify the payments that have been allocated to you for this financial year.

For employer contributions, this includes both SGC and salary sacrifice contributions. For personal contributions, this includes contributions claimed as a tax deduction. Please be aware this limit is the combined total for all your superfunds.

If you are 67 years to 74 years old when you make the contribution, you need to meet the work test in which you must be gainfully employed for at least 40 hours during a consecutive 30-day period in the financial year the contributions are made.

Non - Concessional Contributions

You may also contribute Non-Concessional contributions – these are personal contributions for which you do not claim an income tax deduction. For 2023 the cap is $110,000. If your total superannuation balance is greater than $1.7 million ($1.9m from 1 July 2023), no more non-concessional contributions can be made.

There is a bring-forward rule that allows you to make up to three years' worth of non-concessional contributions totalling $330,000. Eligibility depends on your age and total super balance on 30 June of the previous year.

From 1 July 2022, the work test that applied to non-concessional and salary sacrifice contributions no longer applies.

Minimum Pension amounts

The minimum pension payments must be drawn in cash prior to 30 June. There was a temporary reduction for 2023 of 50%. The 50% reduction will no longer be available from 1 July 2023. If you need assistance with the calculation of your minimum payment, please contact our office.

Superannuation Guarantee Charge

The minimum level of superannuation contribution is 10.5% for the 2023 year, and must be received by the fund before 30 June to be deductible. The rate increases to 11% from 1 July 2023.

It should also be noted that from 1 July 2022 employees are eligible for superannuation guarantee (SG) contributions regardless of how much they earn. This is because the $450 per month eligibility threshold for when SG is paid was being removed.

Super Co-Contribution

The higher eligibility threshold for the Government co-contribution increases from $56,112 to $57,016 of assessable income plus reportable fringe benefits plus reportable employer superannuation contributions in 2023. The co-contribution matching rate is 50% and the maximum entitlement is $500.

Division 293

This is an additional tax on super contributions, which reduces the tax concession for individuals whose combined income and contributions are greater than $250,000. Divisional 293 tax is charged at 15% of an individual's taxable contributions.

Transfer Balance Cap

From 1 July 2023, indexation will increase the general transfer balance cap, the amount you can transfer into a tax-free retirement account, by $200,000 to $1.9m.

For those contemplating retiring very soon, by waiting until after 1 July 2023 before starting a retirement income stream, you will have access to this additional $200,000 cap of tax-free superannuation savings.

ATO KEY CHANGES IN 2023

Tax depreciation incentives

The temporary full expensing rules cease on 30 June 2023. These rules enable businesses to fully deduct the cost of assets upfront as long the asset is first held and ready for use by the 30 June 2023.

From 1 July 2023 until 30 June 2024, small businesses with an aggregated turnover below $10m will be able to immediately deduct assets costing less than $20,000 in the year of purchase using the instant asset write off. For other businesses, assets will be depreciated using the general depreciation rules over time.

Transfer balance account report (TBAR)

All SMSFs will be required to report quarterly, even if the members total super balance is less than $1 million. This means you must report the event that affects the members transfer balance within 28 days after the end of the quarter in which the event occurs.

All unreported events that occurred before 30 September 2023 must be reported by 28 October 2023. This means you cannot report at the same time as your SMSF annual return (SAR) for the 2023 income year.

Working from home deductions

From 1 July 2022, individual taxpayers will only be able to claim deductions for home office expenses using either an actual expenses method or a revised fixed rate method.

The revised fixed rate method provides for a deduction at the rate of 67 cents per hour for energy expenses (electricity and gas), internet expenses, mobile and home phone expenses, and stationery and computer consumables. Other costs, such as depreciation on computers or other running costs not referred to above can still be claimed separately.

You need to satisfy three basic criteria to use the revised fixed rate method:

- You have performed genuine work or business activities from home.
- You personally incur additional running expenses as a result of this work.
- You keep and retain relevant records.

The ATO has warned that it will no longer accept estimates or a sample diary over a four-week period for the 67 cents fixed rate method of claiming work from home deductions. From 1 March 2023, you will need to demonstrate the actual hours you worked from home.

Single Touch Payroll (Phase 2)

The ATO has outlined some common mistakes made by employers in transitioning to reporting through STP Phase 2. We recommend you:

- Check that pay codes have been set-up correctly and that payments such as allowances, leave and overtime are reported separately.
- Ensure all employee details are correct, including name, date of birth, TFN, and whether they are employed full-time, part-time, or casual.

• Where transitioning from STP Phase 1 to Phase 2, confirm that year-to-date amounts have been correctly maintained when reporting in Phase 2.

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.

Resumption of offsetting refunds against old tax debts

The ATO has indicated that from June 2022 it will recommence offsetting client tax refunds or credits against tax debts that are on hold.

Debts on hold are previous non-pursued debts that the ATO has not undertaken any recent action to collect. These debts don't show up as an outstanding balance on the client's account as they have been made 'inactive'.

ATO PRIORITY AREAS

Key tax time targets include:

- Rental property income and expenses
- Income and 'gifts' from online content creation (OnlyFans, YouTube, TikTok etc.).
- Cryptocurrency gains.
- Gig economy workers (not declaring income).
- Foreign income (not declared).
- Work from home expenses (inaccurately claimed).
- And as always, work related expenses (overclaimed).

Increasingly sophisticated data matching programs mean that the ATO is more likely to notice if you have failed to declare income from the sale of assets, income earned through platforms, or made a gain on crypto transactions.

You can offset your assessable income against any allowable deductions. To be tax deductible, an expense must be directly related to how you earn your income. When it comes to expenses, if you are claiming for items not normally associated with your industry, claim the same amount or same items each year (cut and paste claims), or claim amounts outside of the norm, then it is likely the ATO will take a closer look.

Getting rental properties right

If you are earning income from an investment property, you can claim deductions for your expenses. These expenses fit into two categories; what you can claim now, and what is claimed over time.

You can claim interest on loans, council rates, repairs and maintenance, and depreciating assets costing $300 or less, in the year that you paid for them. Other items, like structural improvements, ovens, adding fences and retaining walls, are depreciated over time.

Rental properties will be a major target for the ATO this year:

- Rental income – Declare all rental income (including short term stays, renting out a room in your house, insurance payouts, rental bonds retained).
- Rental expenses – Rental expenses can only be claimed for the portion of time that the property was rented or genuinely available for rent. If, for example, you did not make the property available for rent while you were renovating it, you cannot claim the cost of the expenses over this period. Sometimes the ATO will argue that a property is not genuinely available for rent even if it is advertised as being available. This can be relevant for properties in locations where there is very little demand during certain times of the year.

- Interest and redraws – If you have refinanced or redrawn on your rental property loan for personal expenses like holidays or a car, this will impact on the interest you can claim.
- Sale of assets – If you earned income from a residential property (renting out a room or the whole house), then it's likely you will pay capital gains tax on any gain you make on the sale of the property. However, if the property was your home for a period of time, you might be able to claim a full or partial exemption from CGT. In some cases, it will be necessary to obtain a valuation of the property at the time it is first used to produce income if it has previously only been used as your main residence.

TRUST RESOLUTIONS

If you operate your business through a trust and you wish to make beneficiaries presently entitled to trust income for the 2023 income year, you should ensure your trustee resolutions are effective. This includes where you may want to stream franked dividends and capital gains that are included in trust income to particular beneficiaries.
It's important that the trustee:

- checks the trust deed to ensure that the intended beneficiaries are within the class of persons who can be appointed trust income (or trust capital, if they intend to stream a capital gain that is not characterised as trust income under the deed) and are not excluded from being beneficiaries;
- complies with any requirements in the trust deed that concern the valid appointment or distribution of trust income to beneficiaries;
- recognises that, for tax law purposes, beneficiaries need to be made presently entitled to 2023 trust income by 30 June this year; is aware that if they fail to do what is required in a trust deed, or fail to validly appoint income to beneficiaries by 30 June, this may cause outcomes to arise that differ to what they intended. This could include other beneficiaries, or the trustee, being assessed on the relevant share of the trust's net (taxable) income. Where a trustee is assessed, this will be at the top marginal rate of tax plus the Medicare levy (47%); and
- ensures that resolutions are unambiguous.

MOTOR VEHICLE EXPENSES

To claim work-related car expenses, you must use your own car in the course of performing your job, for example, to:

- Carry bulky items that cannot be left at the workplace
- Have multiple sites that you travel between as part of your employment
- Your home is a 'base' of work and you travelled from there to another site, such as a client's premises to continue work
- Have a second job and travel directly from one workplace to another

Travel from home to work, is generally not considered work related for tax purposes.

There are two methods for claiming car expenses:

1. *Cents per Kilometre Method*

Based on a set rate for each business kilometre. A maximum claim of 5,000 business kilometres will be allowed. Substantiation is not required but claims must be based on a reasonable estimate. The rate is 78 cents in the 2023 year and increases to 85 cents in the 2024 year.

2. *Log Book Method*

A logbook (valid for 5 years) is kept for a minimum continuous 12-week period. Business and total kilometres during the period are recorded to determine your business use percentage. Allowance should be made for abnormal usage falling outside the test period. Allowable car expenses are multiplied by the business use percentage. Other than petrol and oil, which can be supported by odometer records, all expenses must be substantiated.

EMPLOYERS: Car allowance withholding

Employers are reminded that if you pay staff a car allowance, you need to withhold tax on any amount you pay that is more than 85 cents per kilometre for the 2024 year.

BUDGET UPDATES

FEDERAL BUDGET 2024

On Tuesday 9 May 2023, the Federal Treasurer delivered the 2024 Federal Budget with a forecast surplus of $4.2 billion. Highlights of the Budget include;

- $1,500 low- and middle-income tax offset: the Government has announced that this measure will not be extended.
- Small Business Energy Incentive: businesses with annual turnover of less than $50 million will be able to claim an additional 20% deduction on spending that supports electrification and more efficient use of energy. Eligible assets or upgrades will need to be first used or installed ready for use between 1 July 2023 and 30 June 2024.
- From 1 July 2023, access to the Government's Home Guarantee Scheme will be expanded to joint applications from "friends, siblings, and other family members" and to those who have not owned a home for at least 10 years.
- 30% tax on earnings where a superannuation fund member has a balance exceeding $3m (exposure draft legislation was released by Treasury on 31 March).
- Small business lodgement penalty amnesty: will be provided for small businesses with aggregate turnover of less than $10 million to encourage them to re-engage with the tax system. The amnesty will remit failure-to-lodge penalties for outstanding tax statements lodged in the period from 1 June 2023 to 31 December 2023 that were originally due between 1 December 2019 to 29 February 2022.
- Small business unpaid tax and super: additional funding from 1 July 2023 to assist the ATO to engage with taxpayers who have high-value debts over $100,000 and aged debts older than 2 years where those taxpayers are either public and multinational groups with an aggregated turnover of greater than $10 million, or privately owned groups or individuals controlling over $5million of net wealth.
- PAYG and GST instalment uplift factor: 6% for 2024 (being lower than the 12% rate that would otherwise have applied under the statutory formula)
- Part IVA: scope of the general anti-avoidance rules to be expanded to catch two additional types of schemes from 1 July 2024, regardless of whether the scheme was entered into before that date.

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.

STATE BUDGET 2024

The Victorian Government will introduce a COVID Debt Repayment Plan to repay the government borrowings of $31.5 billion during the COVID pandemic. The COVID Debt Repayment Plan contains a temporary levy that will apply for 10 years, until 30 June 2033. The levy has two components — a payroll component and a landholdings component.

Payroll component

From 1 July 2023, additional payroll tax will be levied as follows:

- businesses with national payrolls above $10 million — a rate of 0.5% will apply; and
- businesses with national payrolls above $100 million — an additional 0.5% will apply (that is, a total payroll tax levy of 1%, effectively taking the payroll tax rate to 5.85%).

The additional rates will be paid on the Victorian share of wages above the relevant threshold.

Payroll tax exemptions, such as those for hospitals, charities, local councils and wages paid for parental and volunteer leave, will continue to apply.

Landholdings component

From 1 January 2024, the land tax thresholds and rates will be amended as follows:

The tax-free threshold for general land tax rates will decrease from $300,000 to $50,000.

A temporary fixed charge will be levied on taxpayers as follows:

- $500 will be levied on taxpayers with landholdings between $50,000 and $100,000; and
- $975 will be levied on taxpayers with landholdings between $100,000 and $300,000.

For taxpayers with property landholdings above $300,000 (and trust taxpayers with property holdings above $250,000), land tax rates will temporarily increase by $975 plus 0.1% of the value of their landholdings above $300,000.

Existing land tax exemptions, including for primary places of residence, primary production land and land used by charities, will continue to apply.

Other relevant budget announcements include:

1. Increase the payroll tax-free threshold

The payroll tax-free threshold will be increased:

- commencing 1 July 2024 — from $700,000 to $900,000
- commencing 1 July 2025 — to $1,000,000.

The deduction associated with tax-free threshold will begin phasing out for every dollar of wages above $3 million. This means businesses with wages above $5 million will not receive any benefit associated with the payroll tax-free threshold.

2. Foreign property investors being stung with an increase in the land tax surcharge for absentee owners (from 2% to 4%).

3. Allow a longer land tax exemption where construction or renovation of a principal place of residence is delayed due to builder insolvency.

REMINDERS

Distribution Minutes

Please ensure you sign and return any trustee distribution minutes/resolutions by 30 June or earlier if required by your trust deed.

End-of-year finalisation through STP

You need to make a finalisation declaration by 14 July each year. The finalisation due date for closely held payees is 30 September each year. For small employers (19 or fewer employees) who only have closely held payees, the due date for end-of-year STP finalisation will be the payee's income tax return due date.

Taxable payments annual report (TPAR)

Businesses required to report contractor payments must do so by 28 August.

Payroll tax annual reconciliations

Payroll tax must be completed and lodged with any amount owing by 21 July.

WorkCover certified rateable remuneration

Required to report to your WorkSafe agent by:

- 27 October 2023 (if your remuneration is over $200,000) or
- 22 March 2024 (if your remuneration is under $200,000).