Tarrants Accountants
(Market St Tax Pty Limited)

Big enough to trust, small enough to care

TARRANTS TAX TALK

June 2023

ATO Tax Time focus areas

With the end of the financial year on our doorstep, the ATO has announced its three key focus areas for 2022-23 Tax Time – rental property deductions, work-related expenses, and capital gains tax (CGT). To maximise your claims in this area and protect yourself from ATO audits and adjustments, be sure to keep the appropriate records.

Work-related expenses

This year the ATO is particularly focused on ensuring taxpayers understand the changes to the working from home methods and are able to back up their claims. To claim your working from home expenses as a deduction, you can use the actual cost method, or the revised fixed rate method, provided you meet the eligibility and record-keeping requirements. See the table on page 4.

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About this newsletter

Welcome to the Tarrants client information newsletter, your monthly tax and super update keeping you on top of the issues, news and changes you need to know. Should you require further information on any of the topics covered, please contact us via the details below.

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ATO Tax Time focus areas! cont

In relation to depreciating of assets and equipment you will need records that show:

- when and where you bought the item and its cost
- when you started using the item for a work-related purpose
- how you work out your percentage of work-related use, such as a diary that shows the purpose of and use of the item for work.

Chat to us if you have any questions around which method to use and the records to keep.

Capital gains tax

Capital gains tax (CGT) comes into effect when you dispose of assets such as shares, crypto, managed investments or properties. Inform us as your accountant if you have disposed of such assets between 1 July 2022 to 30 June 2023.

On the disclosure front, be mindful that the ATO has extensive data-matching capabilities and, as such, will likely be able to detect the sale of most CGT assets.

Rental property deductions

Many landlords will expect large amounts of deductions to be claimed when their returns are lodged. However, your record keeping will significantly impact the deductions that can be claimed. Talk with us around the record keeping requirements if you are unsure.

Keep records of the following:

- bank statements showing the interest charged on money you borrowed for the rental/commercial property
- loan documents
- land tax assessments
- documents or receipts that show amounts you paid for:
  - advertising (including efforts to rent out the property)
  - bank charges
  - council rates
  - gardening
  - property agent fees
  - repairs or maintenance etc.
- documents showing details of expenses related to:
  - the decline in value of depreciating assets
  - any capital work expenses, such as structural improvements
- before and after photos for any capital works
- travel expense documents, if you are eligible to claim travel and car expenses such as:
  - travel diary or similar that shows the nature of the activities, dates, places, times and duration of your activities and travel (you must have this if you travel away from home for six nights or more)
  - receipts for flights, fuel, accommodation, meals and other expenses while travelling
  - receipts for items you used for repairs and maintenance that you paid for when you travel to, or stayed near, the rental property.
- documents that show periods of personal use by you or your friends
- document that show periods the property is used as your main residence
- loan documents if you refinance your property
- documents, receipts and before and after photos for capital improvements
- tenant leases
- when you sell a property:
  - contract of sale
  - conveyancing documents
  - sale of property fees.

This year, the ATO is particularly focused on interest expenses and ensuring rental property owners understand how to correctly apportion loan interest expenses where part of the loan was used for private purposes (or the loan was re-financed with some private purpose).

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Super pensions and the Commonwealth Seniors Health Card

Are you a self-funded retiree who does not qualify for the Age Pension? If you've answered yes, then help may be available for certain living expenses by way of the Commonwealth Seniors Health Card (CSHC).

WHAT IS THE CSHC?

The CSHC is a concession card enabling access to cheaper health care and some discounts if you've reached Age Pension age.

BENEFITS OF THE CSHC

With a CSHC you may receive benefits such as:

- Cheaper medicine under the Pharmaceutical Benefits Scheme (PBS)
- Bulk billed doctor visits – this is up to your doctor
- A refund for medical costs when you reach the Medicare Safety Net, and
- Depending on your state or territory government and local council, lower electricity and gas bills, property and water rates, and public transport.

WHO CAN GET THE CSHC?

To get this card you must meet all of the below conditions:

- Be of Age Pension age or older
- Meet residency rules
- Not be receiving an income support payment (such as the Age Pension) from Centrelink or the Department of Veterans' Affairs
- Give Centrelink your Tax File Number (including your partner's TFN) unless you're exempt from doing so
- Meet identity requirements, and
- Meet the income test.

An income test applies

To get a CSHC, you must meet an income test and earn less than the following:

- $90,000 a year if you're single
- $144,000 a year for couples, or
- $180,000 a year for couples separated by illness, respite care or prison.

The income test will look at both your:

- Adjusted taxable income – this is the taxable income shown on your income tax return plus some extra amounts such as certain superannuation contributions and losses made on investments, and
- A deemed amount from your account-based income streams (ie, superannuation pension) that started on or after 1 January 2015.

When it comes to deeming amounts for account-based income streams, the actual amounts paid from your income stream are ignored. Rather, Centrelink assumes that your income

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Super pensions and the Commonwealth Seniors Health Card cont

stream (including other financial investments) earn a certain rate of income based on a percentage of the account balance at the start of the year.

The percentage is 0.25% up to a threshold ($56,400 for singles, $93,600 for couples) and then 2.25% thereafter.

For example, if you are a single person with a $1.5 million account-based income stream, you would have a 'deemed income' amount from that pension of $32,622, worked out as follows:

(0.25% x $56,400) + [2.25% x ($1.5m - $56,400)] = $32,622

Whereas (using the same formula) a couple with income streams of $1.5 million each would have deemed income of $65,628, combined.

No assets test applies

There is no assets test for the CSHC. This means you could have large accumulation accounts or make large withdrawals from your accumulation or pension accounts each year and have no impact on your CSHC!

How to claim

The easiest way to claim the CSHC is online via your myGov account. Alternatively, you can also claim by form or phone.

Contact us today if you would like further information about the CSHC.

ATO Tax Time focus areas! cont

Work-related expenses

RECORD-KEEPING - REVISED FIXED RATE METHOD	RECORD-KEEPING - ACTUAL COST METHOD
■ A record of all the hours you work from home for the entire year (e.g. a timesheet, roster, diary or similar document)	■ You will need to keep a record for every expense you claim
■ Evidence you paid for the expenses covered by the revised fixed rate method (for example, if you use your phone and electricity when you work from home, keep one bill for each of these expenses)	■ Receipts, bills or invoices which show the supplier, amount of the expense, nature of the goods, date it was paid and the date of the document
■ Records for items you claim as a separate deduction	■ Evidence of your personal and work-related use of the items or services you buy and use
■ From 1 July 2022 to 28 February 2023, the ATO will accept a record which represents the total number of hours worked from home (for example a four-week diary)	■ You can work out your work-related expenses using records for the entire year or over a four-week period that represents your work use – for example, using a diary or itemised bill
■ From 1 March 2023, a contemporaneous record of all the hours you worked from home is required (e.g. a timesheet)	

Generous depreciation in its final days

This month's federal budget confirmed that temporary full expensing (TFE) is now in its final days.

To recap, TFE will cease and be replaced by a $20,000 instant asset write-off (IAWO) from 1 July 2023.

Under this change, small businesses (aggregated annual turnover of less than $10 million) will be able to immediately deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. Assets valued at $20,000 or more (which cannot be immediately deducted) will be placed into a small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

For larger businesses, the write-off threshold is cut to $1,000 also from 1 July 2023.

TFE, which allows eligible businesses with a turnover of less than $5 billion to deduct the full cost of eligible depreciable assets of any value, is however still available up to 30 June 2023. To take advantage of it, and assist your cashflow, note the following dates for 2022-23 whereby an eligible business can claim a deduction for the business portion of the cost of:

- eligible new assets first held, first used or installed ready for use for a taxable purpose between 1 July 2022 and 30 June 2023 if you have a turnover of less than $5 billion
- eligible second-hand assets where both the asset was first held, first used or installed ready for use for a taxable purpose between 1 July 2022 and 30 June 2023 for entities with aggregated turnover of less than $50 million.

Most business assets are eligible including machinery, tools, furniture, business equipment etc. There are however some ineligible assets as follows:

- buildings and other capital works for which a deduction can be claimed under the capital works provisions in the Tax Act

- trading stock
- CGT assets
- assets not used or located in Australia
- where a balancing adjustment event occurs to the asset in the year of purchase (e.g. the asset is sold, lost or destroyed)
- assets not used for the principal purpose of carrying on a business
- assets that sit within a low-value pool or software development pool, and
- certain primary production assets under the primary production depreciation rules (e.g. facilities used to conserve or convey water, fencing assets, fodder storage assets, and horticultural plants (including grapevines)).

TFE assists cashflow, which can be one of the biggest killers of small business. However, no extra deductions are available under TFE. For this reason, you should continue to only purchase assets that align with your business plan.

Get in touch with us if you have any questions around the purchase of depreciating assets leading up to the end of the financial year.

Do you have a side-hustle?

With the cost-of-living skyrocketing, have you taken up a side-hustle? With new and emerging ways to make money, the ATO is reminding taxpayers to consider if they are 'in business' and to declare to their tax agent if they are engaged in a side-hustle.

Record numbers of taxpayers are now working multiple jobs or supplementing their income with 'side-hustles' or 'gig' economy activities.

ATO Assistant Commissioner Tim Loh said if you earn money through continuous and repeated activities for the purpose of making a profit, then it's likely you're running a business.

> *While there are always new and different ways to make money, the tax obligations remain the same. Don't fall into the trap of forgetting to include all your income thinking the ATO won't notice.*
>
> *You also need to declare any additional income earned through that side-hustle.*

Businesses have a range of obligations depending on their structure and turnover, including registering for an Australian business number (ABN), keeping the right records and lodging the right type of tax return. They may also have to register for GST.

The ATO is running an advertising campaign to remind taxpayers about their obligations if their side-hustle is generating income.

Mr. Loh said:

> *With tax time just around the corner, if you are bolstering your income with new activities, make sure all your records are up-to-scratch. This could be anything from animal breeding to earning income through digital platforms, such as ride share or food delivery, or even online content creation, like social media influencers.*
>
> *If your home has become more like a warehouse and is stocked to the hilt with goods to sell, then you may in fact be running a business.*
>
> *If you're running bootcamp sessions, in addition to your 9–5 job, well this is a side-hustle and you need to declare this income to the ATO.*
>
> *If you're an online content creator earning money or receiving gifts, you're also likely to be running a business and there are tax obligations you need to comply with.*

Mr. Loh acknowledged 'sometimes it's hard to tell if you're 'in business' and we recognise not everything you do to make money is considered a business. The ATO won't consider activities as 'in business' when they are a one-off transaction (unless it is the first step in carrying on a business or intended to be repeated) or an activity from which you don't seek to make a profit.'

The ATO has sophisticated data-matching and analytical tools to identify taxpayers that under-report their income. From 1 July 2023, the Sharing Economy Reporting Regime will commence and the ATO will receive data from more electronic distribution platforms. The ATO will match this information with the information taxpayers provide on their tax return or activity statement to identify income that has not been included. Mr. Loh said:

> *It doesn't matter whether you are carrying on a business or simply earning additional income through a digital platform, such as a website or even an app, you must keep accurate records of your income and include it in your tax return.*

If you are finding your feet in business, we are here to support you.

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What are the types of super funds you can contribute to?

With the total superannuation sector worth more than $3.5 trillion at the end of March 2023, superannuation is serious business. There are many types of superannuation funds available but sometimes having too many to choose from can be confusing. However, picking the right fund is important as it could impact how much you may have to retire on in the future. This article provides a brief summary of the five main types of funds and highlights the differences between each fund.

1. Retail funds

- Retail funds are generally run by banks and other financial institutions and are open to all members.
- Individuals who seek advice from a financial adviser will usually be advised to invest in a retail fund via an administrative platform, which often has a wide range of investment options to choose from.
- Most retail funds range from medium to high cost, however many retail funds now offer a low-cost alternative called a 'MySuper' fund, which is a simple account that has basic features.
- Retail funds are run for-profit, which means the company running the fund retains some profit.
- Retail funds generally offer accumulation and pension accounts.

2. Industry funds

- Although originally set up for workers in specific industries (such as healthcare, hospitality, building and construction, etc.), most industry super funds are open for anyone to join.
- There are pre-mixed investment options designed to suit most members' needs, however some funds allow members to create their own investment mix from a range of investment options.
- Industry funds generally range from low to medium cost, and most offer MySuper products.
- They are run only to profit their members, which means profits are put back into the fund for the benefit of members.
- Most funds offer accumulation and pension accounts.

3. Public sector funds

- These funds operate specifically for government employees, however some are now open to anyone to join.
- Some employers contribute more than the legislated minimum superannuation guarantee (currently 10.5% in 2022/23) to these funds.
- Public sector funds usually have a limited to modest range of investment options.
- These funds generally have low fees and some offer MySuper products.
- Profits are put back into the fund.
- Newer members are usually in an accumulation fund, whereas older members are often in defined benefit funds.

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What are the types of super funds you can contribute to? *cont*

4. Corporate funds

- Corporate funds are set up by an employer for their employees. Typically, large companies, such as Telstra and Qantas, will have their own fund for their own employees.
- Some funds operate by appointing a board of trustees to represent the employer, the employees and to oversee the investment of the fund.
- Smaller corporate funds may operate under the umbrella of a large retail or industry super fund.
- Those managed by a larger fund may offer a wider range of investment options.
- Corporate funds are generally low to medium cost for large corporates but may be high cost for smaller employers.
- Corporate funds run by the employer or an industry fund will usually return all profits to members, whereas those run by retail funds will retain some profits.
- Most are accumulation funds, but some older funds may be defined benefit funds.

5. Self-managed super funds (SMSFs)

- As the name suggests, an SMSF is fund that you manage yourself. You can have up to a maximum of six members in your fund, in most cases family members; however sometimes people who are in business together may set up their own SMSF.
- SMSFs offer a wider range of investment options compared to other superannuation funds. With some limited exceptions, an SMSF can invest in almost anything provided the investment is allowed for under the trust deed and the fund's investment strategy, the investment meets the sole purpose test, and also adheres to the superannuation laws.
- All members must be trustees (or directors if there is a corporate trustee) and are responsible for all decisions made regarding the fund.
- There is no minimum start-up amount but set-up costs and annual running expenses can be high, depending on your superannuation balance and whether you use administration and other services. That said, recent research* found that an appropriate start-up threshold is $200,000, as SMSFs with balances of $200,000 or more provide equivalent value to retail and industry funds. However, SMSFs with balances below $200,000 are likely to achieve considerably lower net investment returns compared with funds with balances of $200,000 or more.
- SMSFs can have both accumulation and pension accounts for members of the fund.

* The University of Adelaide, *'Understanding self-managed super fund performance'*, February 2022

Do you have a side-hustle? *cont*

Case study: Hayley heads off-track for fun, but on the right track for business

Hayley works in hospitality at night and spends most days fishing or four-wheel driving. She decides to start developing 'how-to' YouTube videos when fishing and four-wheel driving. Hayley's online following is rapidly increasing, and she's now earning money from her videos.

With the growing online interest, Hayley cuts back her hospitality work and starts to invest more effort into her videos. Hayley sets up a production schedule that sets out the type of content she will produce on a weekly basis, buys equipment to improve her production quality, completes an online video editing course to improve her editing skills and records all expenses from her content creation activity.

Hayley wants to know if her side hustle activities are a business. She looks at all her activities together and determines she is running a business because she:

- intends to make a profit to supplement her salary and wage income
- set up a regular schedule for these activities
- operates in a business-like way (she has a plan and system for making a profit).

Maximising cashflow

The predicted slowing of the economy in 2023-24 along with the pay day super guarantee (SG) proposal are sure to make cashflow more important than ever for business over the coming months and years, noting that it is one of the biggest difficulties faced by business.

To recap, from 1 July 2026, employers will be required to pay their employees' super at the same time as their salary and wages. Currently, SG is payable quarterly – allowing business more time to make provision for this obligation.

There are a number of strategies that may improve cashflow for your business:

PAYG instalment assistance

- In the recent federal budget, it was announced that there is PAYG instalment relief on the way. Currently, most small to medium-sized businesses are required to make pay as you go (PAYG) instalments which go towards their annual income tax liability. Entities liable to pay GST may also elect to pay by instalments.
- A 6% GDP uplift rate will apply to small to medium-sized businesses (and some individuals) who are eligible to use the relevant instalment method (this being up to $10 million aggregated annual turnover for GST instalments and $50 million annual aggregated turnover for PAYG instalments) for instalments relating to the 2023-24 income year and which fall due after the enabling legislation receives Royal Assent.
- This uplift factor is lower than the 12% rate that would have applied under the statutory formula, freeing up cash for businesses.

Reconsider the terms on which you deal with customers

- If a customer regularly cannot pay, or can not pay the full amount, you should perhaps consider the terms on which you deal with that customer. For instance, to protect yourself against future non-payment, you might like to only deal with that customer on an upfront payment basis. Decisions in this regard should be made on a case-by-case basis.

Send invoices immediately

- Delaying the filling out of your invoices until the end of the week or the end of the month, for example, may unnecessarily create cashflow problems for yourself. When you make the supply, send out the invoice!

Bank amounts that you receive

- By banking amounts as soon as you receive them, you will be better able to monitor your true cash situation at any point in time. Not banking amounts immediately leads to estimation and confusion as to the true cash position of your business.

Discounts for early payers

- Offer discounts to customers who pay early. A word of caution – it is important to strike a balance between a reasonable discount, and your desire for early payment. Offering sizeable discounts for money that may have been paid in full a few days later anyway will end up causing its own cashflow problems! In most cases, it is best to keep the discounts small, and require the payment well before the due date.

Insurance for debtors

- If you are a business that relies heavily on a few clients, you should consider taking out insurance. By insuring against the failure of your major debtors, you can safeguard against their potential collapse.

Increase your time to pay

- Try to get creditors to extend their due dates for payment, for example, from 14 days to 30 days; from 30 days to 60 days; or from 60 days to 90 days. Any extra time that you have to pay amounts owing is effectively interest-free money.

Consider charging deposits

- Consider charging deposits for significant orders. Not only does this guarantee at least part payment, but also makes customers think twice before cancelling their orders for goods that are in the process of being made available.

Excess stock

- Businesses need to make sure that they do not have excessive stock. Ideally, businesses should aim to have enough stock to keep customers happy and not have (if applicable) your store looking empty. Beyond that, any excess stock is merely tying up cash.

Prepare a cashflow forecast

- We can assist with the production of this.

Last-minute super strategies to leave your heirs more

Setting up a cashing-out request can mean a tax-free inheritance, but the timing is crucial.

At the beginning of what has been described as the greatest film ever made, Citizen Kane, the dying Charles Foster Kane (played by Orson Welles) utters his last word: "Rosebud". A young reporter is then tasked with discovering the meaning of "Rosebud".

What would have happened if with his dying breath Kane had said, "Quick, withdraw all my super"?

A recent private binding ruling from the Australian Taxation Office (PBR 1051988780639) confirms Kane could have made a last-minute withdrawal of his super before he died and that the payment, even if made after he died, would still be treated as the payment of his member benefit and not as a death benefit.

1941: Orson Welles takes the lead role in Citizen Kane, directed by himself for RKO. **Hulton Archive**

Assuming Kane was over 60 and retired, any withdrawal from the fund during his life would be tax-free in his hands – even the taxable component.

But Kane's death benefit nomination provided that his death benefit be divided equally among his children. Let's say there were three children – assuming the super benefit has a taxable portion of 90 per cent and the fund's balance was $1.5 million (all in pension phase), each child may have to pay tax of up to $67,500 on their share.

Could Kane arrange to withdraw his entire super balance shortly before his death? If so, he would pay no tax on the $1.5 million. He could then gift that money through his will to the three children who would also pay no tax.

Kane could prepare and sign (but not date) a full cashing-out request for his pension and its payment to him as a lump sum. The cashing-out request should provide for the first part of the payment to satisfy any unpaid minimum pension amount for the year and then take the balance as a lump sum (Kane wouldn't want to lose the tax exemption on income for that last year).

When the time was appropriate, the cashing-out request could be dated and served on the trustee of the fund.

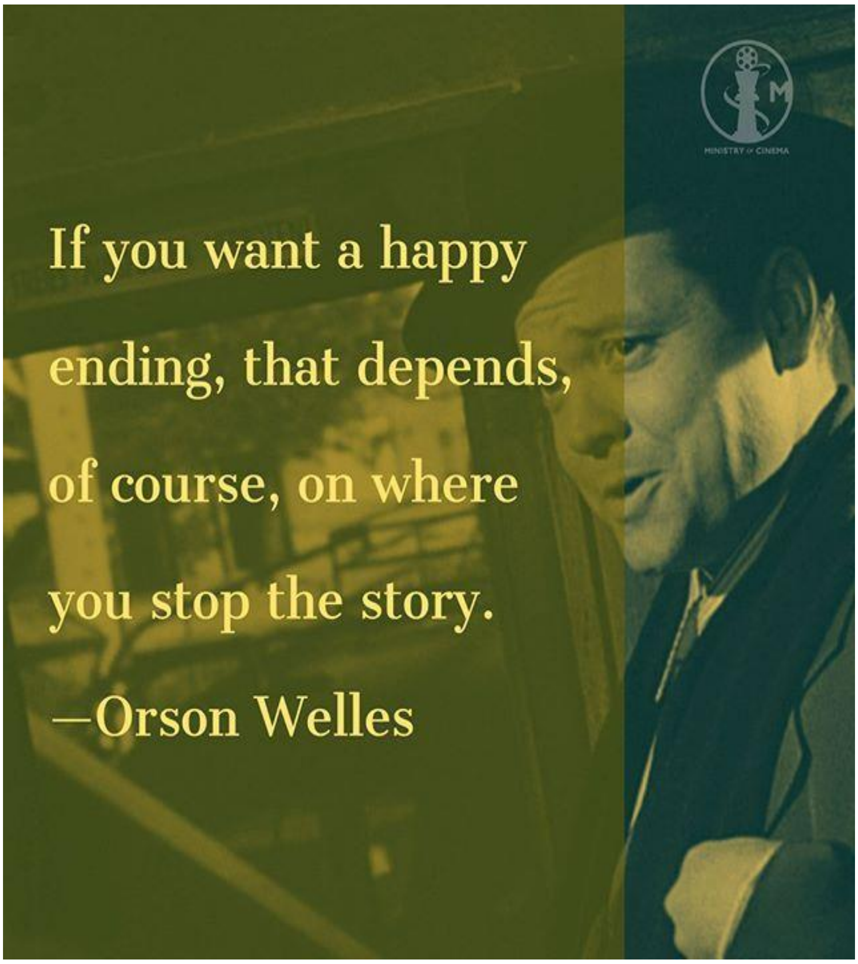
Tricky timing

The assessment of exactly when the appropriate time would be is one of the main problems with this strategy. Few of us know exactly when we're going to die, so any strategy that needs to occur immediately beforehand has a problem.

Kane could direct his enduring power of attorney to serve the cashing-out request for him when the attorney believes that Kane's death is imminent. Indeed, Kane could give his enduring attorney the right to prepare the cashing-out request and apply this strategy if the attorney believes it is beneficial to Kane's family. (Imagine if the enduring attorney gets it wrong: "What do you mean he's recovered? I've withdrawn all his super!").

The critical issue is whether Kane has an unconditional right to fully cash out his pension and whether he can effectively exercise that right before his death. Having served the cashing out request on the trustee before he died clearly shows the exercise of this right and converts to a legal right to the immediate payment of his member balance.

The fact that the trustee only discharges that legal right after Kane's death is irrelevant, as is the fact that the trustee knows Kane has died and the fact that fund assets may have to be redeemed to enable the payment.



Once Kane exercises his cashing out right, the relationship between Kane and his self-managed super fund changes. Before cashing out, the relationship is beneficiary-trustee; after cashing out, the relationship is creditor-debtor.

Once the creditor-debtor relationship has been established, the payment of the benefit to Kane will be a superannuation member benefit rather than a superannuation death benefit – even if Kane dies after the full cashing-out request has been received by the trustee, but before the benefit has been paid.

The cashed-out amount forms part of Kane's estate and can be allocated as specified in his will; that is, equally to the three children who will each receive $500,000 tax-free.

Kane would be very unwise to use this strategy if his estate has substantial debt because his super benefits may be protected from that debt while inside super or paid as a death benefit, but not if taken out before Kane's death.

Peter Townsend - Author