K M T
consulting

Taxation, Accounting & Business Services
PO Box 372 Narellan, NSW 2567

Client Newsletter
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CPA

Ph: (02) 4648 1089
Mob: 0412 028146
www.kmtconsulting.com.au

Another very eventful year . . . again, mostly for all the wrong reasons!

There have also been quite a few new developments on the tax and business front over the past year, so I apologise in advance for the length of this newsletter. There are a number of significant changes to mention, and also some tax planning opportunities that have arisen as a result. Many of the details around these changes are complex, and it is impossible to cover all of those complexities here. So, as always, note the disclaimer at the bottom of the page and please make sure you contact me to discuss any of these before acting on them, just to make sure that they will be effective for your circumstances.

INDIVIDUALS

2021 Individual Tax Rates

There have been some changes to these rates for the 2020-21 year. Specifically, the 32.5% rate now commences at a taxable income of $45,000 (previously $37,000) and the 37% rate commences at $120,000 (previously $90,000). The new rates are:

Taxable Income	*Tax rate*
Up to $18,200	NIL
$ 18,201 – 45,000	19.0%
$ 45,001 – 120,000	32.5%
$120,001 – 180,000	37.0%
Over $180,000	45.0%

(Note that the above rates do not include the medicare levy, which is unchanged at 2% of taxable income).

LAMITO

This acronym stands for the **"Low and Medium Income Tax Offset"** of up to $1,080 which was to have been phased out last year. The government has announced that this remains in place for the 2020-21 and the 2021-22 years. The maximum LAMITO available will depend on an individual's income level:

Taxable income	*Maximum Offset*
$37,000 or less	up to $ 255
$90,000 or less	up to $1,080

After $90,000, the offset gradually phases out to zero at an income of $126,000. It is a non-refundable offset, which means that it will only result in an increased refund if you otherwise have a tax liability. In other words, if your income is below the tax-free threshold, or if you would otherwise be entitled to a refund of all tax paid or withheld, then the offset will not make any difference to your tax outcome.

"In-Person" Tax Appointments and COVID-19

If you are feeling well and are at low risk of contracting COVID-19, then you are welcome to attend the office in person if you wish. Simply call or email us as usual for an appointment time. Be assured that we are taking appropriate precautions, such as spacing out individual appointments where possible, and sanitising the office after each appointment.

However, there is always an infection risk with many clients visiting the office each day. And of course, the frequent cleaning and sanitising impacts on our efficiency during the very busy annual "tax time."

So, to help us, you can **send us your information electronically**. We have tried to make it as easy as possible for you to do so. There are checklists on our website to help you make sure you provide all the required information. Or (even easier), you can use the template on our website: (www.kmtconsulting.com.au - see the "Online Submission" page). With payment summaries now available online, there is usually no need to attach any additional documentation, and ***we can usually process it faster*** than if you had to wait for an appointment time. Be assured that this is ***NOT a rushed process***. I handle all tax return preparation personally, and I will contact you to seek additional information or to clarify matters if required.

Home Office Expenses

Due to the COVID-19 lockdowns and additional time spent working from home this past year, many of you will have increased claims for home office expenses. You may have needed to purchase additional stationery, office furniture or computer equipment. Perhaps you have used your home internet or personal mobile phone much more than usual for work purposes.

You have probably heard that there is a flat rate of 80c per hour that you can use as a "shortcut" to claim for home office expenses with very little substantiation, (other than how you reasonably calculated the hours being claimed).

HOWEVER, this "shortcut" is not as generous as it may appear. If you use this method, **you cannot separately claim any other office expenses**. Just to be clear . . . The 80c per hour method is a "catch-all" method. If you use it, you **cannot** also separately claim for items such as electricity, cleaning, mobile phone, internet, stationery, office furniture or computer equipment.

So, my advice is to **keep records of these expenses** as you otherwise would have. If your actual expenses are modest, then the "80c method" may still be suitable for you. If, however, your actual expenses are significant, it may be better to stick with the "old" approach and separately claim the actual expenses that you can substantiate.

SUPERANNUATION

Deductible Limit

The **deductible limit** for individuals remains at $**25,000** per person for the 2020-21 year. (This will increase to $27,500 for the 2021-22 and subsequent years). This includes deductible contributions **from all sources**, so if you are considering making extra deductible contributions to your Fund before 30 June, make sure that you allow for the amounts already paid by your employer.

Notifying your Fund

If you make any voluntary deductible contributions (other than salary-sacrificing them through your employer), please remember that you MUST notify your Fund of your intention to claim AND have received an acknowledgement from the Fund. This must be done **before** you lodge your tax return. The ATO is now starting to data-match with super funds and ***is disallowing these deductions*** where the Fund has not received and acknowledged your notification.

"Catch-up contributions"

As a tax-planning technique, you can now make deductible "catch-up contributions". If you contributed less than $25,000 in either (or both) of the years ended 30 June 2019 or 2020, you are allowed to contribute the unused balance this year. Provided your super fund has lodged its tax returns on time, the ATO will have access to this information. Please let us know if you want us to find these numbers for you, but don't forget that your super fund must receive the additional contributions by 30 June, so you will need to act soon.

Early Release of Super – Beware the ATO

The COVID-19 measures allowed **early release of superannuation** of up to $20,000, and many more individuals than predicted took advantage of this opportunity. Among the eligibility requirements were that the person:

1. had become unemployed or was made redundant,
2. had their working hours or income reduced by at least 20%, or
3. was eligible to receive JobSeeker, Parenting Payment, Youth Allowance or other Special Benefit from Centrelink.

The ATO is now data-matching with employer pay records and Centrelink records to identify anyone who may have accessed their superannuation without being eligible.

A particular strategy that has caught their attention is where a person **made a deductible contribution to super for the same (or, a similar) amount that they withdrew from the fund**. In these circumstances, the ATO will assume that the only reason for accessing the super was to obtain the advantage of claiming the tax deduction when re-contributing it. Anyone who employed this strategy was probably not experiencing any real financial hardship, and the ATO will certainly want to verify that the person was eligible for the early-release at the time it was applied for.

BUSINESSES

Single Touch Payroll (STP)

Already, all employers with unrelated employees will be familiar with the STP requirements to report payroll information to the ATO in "real time", that is, each time a pay run is processed. The information must be electronically transmitted directly from the payroll software.

From **1 July this year (ie: for the 2021-22 year)**, ALL EMPLOYERS will be required to report payroll information electronically for ALL EMPLOYEES during the financial year, including payees who are "closely-held" (ie: shareholders, directors and/or close family members).

To be clear, if you are operating as a SOLE-TRADER, a PARTNERSHIP or a TRUST, you are NOT affected by these new rules UNLESS you employ another person who is NOT the owner, a partner in the partnership or a beneficiary of the trust.

If you are operating as a COMPANY, you WILL be caught by these rules, even if you or your wife / partner / child(ren) are the only employees.

The ATO understands that business owners / directors cannot (or, do not) always take a fixed "wage" from their company. Often, they will take money out for personal use as it is required, and then when the bookkeeping and BAS are finalized each quarter, those amounts are aggregated and counted as "wages", with PAYG withholding tax being calculated and remitted to the ATO.

The ATO will now require that Single Touch Payroll information be lodged for these individuals. How can this be conveniently done? **There are 3 options**, ALL of which require that the business owners and close family members be set up in a Single-Touch Payroll system using approved software. The options are:

1. Report **actual amounts on or before each pay day**. This basically means being paid regularly along with the other employees (if any) and including yourselves in each pay run.

2. Report **actual amounts quarterly** at the same time as the BAS lodgement. An aggregated "quarterly pay" would be processed through the STP system, with the totals of all payrolls and withholding taxes matching the quarterly BAS.
3. Report **a reasonable estimate each quarter** without reference to actual amounts taken from the business. The estimate can be based on the prior-year actual numbers, with adjustments if circumstances have significantly changed. Again, the amounts reported through STP would match the BAS for the quarter.

Please forgive the length of this section. It is deliberately detailed so that all of you who are likely to be affected can consider the available options. Please contact me if you require any assistance with deciding how to comply with these new requirements.

Superannuation Guarantee

The mandatory 9.5% superannuation guarantee which applies to employee wages will increase to **10% on 1 July 2021**. If you have employees, please ensure that you make the necessary changes to your payroll system from that date.

Small Business Income Tax Offset (SBITO)

This offset applies to individuals who derive business income either as sole traders or through a non-corporate entity (eg: a partnership or a trust). It is calculated as a percentage of the tax which is attributable to that business income. The 8% rate has increased to 13% for 2020-21. But this is not as generous as it sounds. The maximum offset cap of $1,000 has not changed.

Accounting for the "JobKeeper" Subsidy

Please remember that this subsidy **is assessable income** and subject to tax. If you have received this as an employee, then tax should have been withheld in the normal manner. If, however, you received it as an employer, as a sole trader or as a partner in a partnership, it is treated as normal business income. You will need to ensure that you have put sufficient money aside to cover the tax liability that arises on it.

Company Tax Rate

The tax rate for "base-rate" companies has reduced from 27.5% to 26% in 2020-21, and will reduce again to 25% from 1 July 2021 (ie: for the 2021-22 year).

A "base-rate" entity is a small business company in which no more than 80% of its income is "passive income" (such as interest, dividends or rental income).

Loss Carry-Back (companies only)

If your company made (or, makes) a loss in any of the years ended 30 June 2020, 2021, 2022 or 2023, it can "carry back" the loss and receive a refund of some or all of the tax paid in a prior year (as far back as 2019).

There are, of course, conditions. All prior tax lodgements must be up to date. Also, the amount of the refundable offset is limited to the tax paid in those prior years, or the balance of the company's franking account, whichever is the lower amount.

Temporary Full Expensing of Business Assets

This is without a doubt the headline tax planning opportunity for the next couple of years. Businesses with less than $**5 billion** (yes, billion) of turnover can immediately claim **the full value** of assets purchased from 7 October 2020 and installed ready for use by 30 June 2023 **regardless of cost**. (From 12 March 2020 to 6 October 2020 a limit of $150,000 per asset applies).

It is generally not mandatory to apply this measure. The legislation includes "opt-out" rules (on an "asset-by-asset" basis) and an election can be made to use the normal depreciation rules instead. In fact, in some cases a non-corporate entity (eg: a sole trader, partnership or trust) may actually be better off (over time) by NOT immediately claiming the full cost of assets. This may avoid much of the value of the claim being "wasted" at lower marginal individual tax rates instead of being preserved for use in later years at higher marginal rates.

BUT BEWARE IF PURCHASING A CAR for your business. Cars have always been subject to a depreciation cost limit. That limit in 2020-21 is $59,136. This is the maximum write-off that can apply to a car, regardless of its actual cost.

Another factor to consider is that if an asset is fully expensed (ie: claimed as deductible for tax purposes), then it has a tax written-down-value of ZERO. This means that ALL proceeds on any future sale or disposal of that item would have to be treated as taxable income.

And a few final quick points to mention . . .

1. If you are required to lodge a "Taxable Payments Report" for contractors, now may be a good time to check that you are capturing all the required information – ie: name, address, ABN, the amount paid and GST included (if any). These reports are due by 28 August each year.
2. If you have trading stock, raw materials or work-in progress, please make a diary note to value these items at cost on (or near) 30 June.
3. If you have been claiming vehicle expenses using the "log-book method" and your log book is more than 5 years old OR your business use has significantly changed, it is time to start a new one.

AND FINALLY . . .

As always, please give me a call if you have questions about any of the matters discussed here, or if you would like assistance with year-end tax planning.

- Tony Kernan