

My apologies that this newsletter is a little later than usual this year. However, there is still time for some last-minute tax planning, so please get in touch soon if you require any assistance with this, or if you have any other questions prior to the financial year-end.

As always, note the disclaimer at the bottom of the page and please make sure you contact me to discuss any tax plans before acting on them, just to make sure that they will be effective for your circumstances.

WE ARE GOING TO REMAIN “VIRTUAL”

You will all be aware by now that I have decided to continue indefinitely with a “virtual” approach to client appointments. This has been working quite well and I see no reason to change it. This means that I will no longer be taking any “in-person” appointments unless there is a real need for you to be physically here in the office. As outlined in last year’s newsletter, it works as follows . . .

Just call or email as usual to arrange an appointment time. You can choose either phone or “Zoom”. Laura will send you an SMS reminder prior to the appointment time (and the zoom codes, if applicable).

There are two other alternatives:

1. **By email:** Send your information to: (tony@kmtconsulting.com.au). Please see the website for a list of the information we need. With payment summaries and many other income details now available online, it is usually not necessary to send document copies unless you are running a small business, own a rental property or have other specific circumstances. If there is a need for copies of documents, these can be either emailed, uploaded through our website, or physically delivered prior to the appointment.
2. **You can use the template on our website:** (www.kmtconsulting.com.au - see the “Online Submission” page). This is a more secure method than email, and with this option *we can usually process your tax return 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.

INDIVIDUALS

Don’t be too hasty this year

We all like to receive our tax refunds as soon as we can, but please remember that it can take a few weeks for the ATO to receive and make available to us all the information required to complete your tax return.

For example:

- Payment summaries. These need to be finalised and lodged with the ATO by your employer(s). They are usually available by mid or late July.
- Interest received from bank accounts. This can take until early August.
- Information about share sales or dividends. This may take until late August.
- Investment earnings from managed funds (these can take until September or October).
- Share allocations from employee share plans.

PLEASE NOTE that if you want us to lodge your tax return before the ATO systems are up to date, then you will be responsible to ensure that the information you provide is correct and complete. If data mismatches that are later identified by the ATO require us to lodge an amendment, this will incur an additional fee.

2023 Individual Tax Rates

There have been no changes to these for the 2022-23 year. However, as expected, there has been a change to the . . .

LAMITO

This acronym stands for the “**Low and Medium Income Tax Offset.**” This offset has been phased out and does NOT apply for the 2022-23 year. It was worth up to \$1,500 depending on a person’s level of taxable income. If you received some or all of this offset last year and your tax circumstances have not otherwise significantly changed, expect a reduced refund this year.

Home Office Expenses

There is a new rate of 67c per hour that you can use as a “shortcut” to claim for home office expenses. This replaces the previous rate of 52c, and the special rate of 80c which was a temporary COVID-19 measure.

This rate of 67c per hour can be used to claim for such expenses as:

- Energy expenses (electricity & gas)
- Telephone and internet expenses
- Stationery and computer consumables

This method is convenient, since it does not require you to estimate the work-related portion of the expense, and you do not need to keep documentation to substantiate the total claim. HOWEVER, you WILL need to keep at least some limited documentation (say, one invoice from each category being claimed).

ALSO, it is no longer possible to estimate the number of hours being claimed based on a representative 4-week diary. The ATO now expects you to keep a full record of hours worked from home FOR THE ENTIRE YEAR (and they WILL disallow the claim in the event of an audit or review if this record cannot be provided).

You can use this “per hour” method in addition to other home office claims based on actual cost (for example, purchase or depreciation of office equipment).

Claiming for Car Expenses

My apologies for boring you with this yet again, but this one continues to be a challenge for many, so here is a repeat of some comments (slightly modified) from last year’s newsletter . . .

There are only two methods now available to claim car expenses:

1. A rate of 78 cents per kilometre travelled for work-related purposes. No log book is required, but you must be able to show how you arrived at your estimated number of kilometres. The number of kilometres claimed cannot exceed 5,000 (which makes for a maximum claim of \$3,900). If you have travelled more than 5,000 kms for work purposes, you can either limit your claim to this, or use method 2.
2. A proportion of actual expenses based on a log book.

Method 2 is where the challenge lies. To use method 2, you **must have kept a log book** for at least 12 weeks to substantiate the proportion that you are claiming. If you do not have one and want to use this claim method, you can start a log book now. (The 12-week period does not need to be all within the same financial year).

I know it’s tedious, but this is not optional. You simply **MUST** have the discipline to keep the log book. **The ATO will not accept a reasonable estimate.** In the event of a tax audit, your claims WILL BE DENIED OR DRASTICALLY REDUCED unless you can produce a valid log book.

For a reminder of the requirements for a valid log book, please see last year’s newsletter (a copy is available from my website).

Cryptocurrency

Many people continue to forget that they may have “dabbled” in cryptocurrencies like Bitcoin or Ethereum. These trading platforms report transactions to the ATO, which means that **the ATO knows if you have sold any cryptocurrencies, even where the monetary**

amounts are small, and even if you did not make a profit. If the ATO has received such information, they will expect to see something in the required labels on your tax return.

With so many people now dabbling in cryptocurrency, excuses such as: “*I can’t remember*”, or “*I don’t think it matters because I didn’t make any money on it*” will not cut it anymore.

The point of all this is that **you must keep proper records**. At a minimum, for any cryptocurrency disposed of, you must be able to identify:

- The date when you purchased it.
- The amount you paid for it.
- The date that you sold, exchanged or otherwise disposed of it.
- The value you received for it (if not exchanged for money, then the market value of whatever it was exchanged for).

COMPANIES AND SMALL BUSINESS

Superannuation Guarantee

The mandatory superannuation guarantee which applies to employee wages will increase to **11% from 1 July 2023**. If you have employees, please ensure that you make the necessary changes to your payroll system from that date.

Also, don’t forget that in order to be tax deductible, super contributions must be paid by 30 June.

Temporary Full Expensing of Business Assets

The opportunity to immediately claim **the full value** of assets purchased **regardless of cost** will expire on 30 June 2023.

After this date, a maximum threshold of **\$20,000 per asset** will apply (until 30 June 2024). It is proposed that the threshold will then drop back to just \$1,000.

Single Touch Payroll

If you are paying employees (even if you are the only employee of your company), you should already be using a Single Touch Payroll system which sends pay information to the ATO after each pay run.

Please remember that after you have completed the last pay run for 2022-23, **there is an additional step required** . . . You need to advise the ATO that the pay numbers are final so that the individual employee payment summaries can be marked “Tax Ready”. This is done from within the payroll software and should be a relatively quick and simple procedure.

Taxable Payments Reporting

If you pay contractors, you need to lodge your Taxable Payments Report by 29 August. **The ATO is now issuing significant fines for failing to lodge these.** As a reminder, the following information needs to be provided for each contractor:

- Name, address & ABN
- The gross amount paid
- The amount of GST included, if any.

If you would like any assistance with preparing and lodging this report, please provide us with the required information well in advance of the due date.

Small Business Tax Amnesty

If your business has overdue tax returns, FBT returns or business activity statements, NOW is the time to bring these up to date. The ATO is allowing a “tax amnesty” until 31 December 2023. It applies to tax obligations that were originally due between 1 December 2019 and 28 February 2022. If these are lodged by 31 December this year, the ATO will not charge any late lodgement penalties.

Trusts

If you derive business or investment income through a discretionary (family) trust, and you are the Trustee, you will need to resolve in writing (prior to 30 June) how any net income is to be distributed to beneficiaries. If this is likely to affect you, I will be in touch in the coming days.

ATO SPECIAL FOCUS AREAS

This year, the ATO has indicated that it will focus especially on the following areas . . .

- Vehicle log books (see the previous page).
- Cryptocurrency trading or investment (see the previous page).
- Rental properties. This last one needs some further explanation . . .

RENTAL PROPERTIES

The ATO has long been concerned that expenses are being overclaimed by many landlords (and it is probably correct). Here are the areas that are likely to attract the most attention . . .

Loan Interest

The ATO will soon begin obtaining information about residential property investment loans from banks and other lenders. It will then be able to compare that information with the amount of interest claimed on tax returns.

It is especially interested in detecting the following:

- **Dual purpose loans.** This is where additional loan drawdowns take place for personal reasons (ie: unrelated to the investment property), but the full amount of interest continues to be claimed as a tax deduction. In these circumstances the interest claim must be reduced by the amount attributable to the personal use of the borrowings.
- **Property sold but loan remains.** Where an investment property is sold, there is an expectation that the proceeds will be applied

to pay out the relevant loan balance. Where this is not done and the loan remains “on foot”, the loan interest will cease to be deductible (except in certain exceptional circumstances).

Other Rental Property Issues

- **Holiday homes.** Some landlords with a holiday home or apartment are evidently claiming all of the related expenses, but the property is very rarely, if ever, genuinely available for rent. The owners and/or their families may use the property at peak holiday times, and only offer it for rent at other times (when there is little or no demand). They may not even advertise the property, or if they do, they may deliberately charge too much rent (to discourage applicants), or even refuse to accept genuine applicants. The ATO considers that in these circumstances the property is not genuinely being held for rental income, but rather for personal lifestyle reasons. Rental deductions can be disallowed or drastically reduced.
- **Rented to related parties.** It is common to rent to adult children or other family members at greatly reduced rates. Where this happens, the ATO can limit the expense claims to the level of rental income (thus disallowing any claims for net rental losses).
- **Repairs vs Improvements.** Differentiating between a repair and an improvement is somewhat of a “grey area” and is not always clear-cut. The distinction is important however, because repairs are immediately deductible in full, whereas improvements must either be depreciated over time, or added to a property’s cost base and then claimed against any eventual capital gain (when sold). The general rule is that a **repair** simply returns something to its original functional condition without changing its nature (eg: repainting, replacing damaged doors, bathroom or roof tiles, repairing walls or fences), whereas an **improvement** results in something entirely new or significantly different (for example, a new air conditioner, complete kitchen or bathroom renovation). An improvement will generally result in an increase in the property’s value, extend its life or even allow for an increase in rental income. If you have spent significant amounts on repairs or improvements, please make sure you can identify each cost so that it can be categorised and claimed correctly.

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