

Welcome to another income tax year

30th June, 2021

I trust you are all keeping well. Corona Virus has been with us for over a year now and I hope you are all adjusting to our new environment.

As always there have been some Income Tax Changes that may affect you. The following is a brief outline of some of those changes. I look forward to assisting you again with your tax preparation, to ensure you receive the maximum benefits available under our complex taxation system.

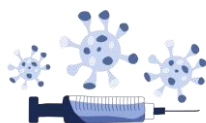


Personal Income Tax Cuts

Due to Covid-19, the Government decided to bring forward tax cuts which were due to commence in July 2022. The new tax rates from 1st July 2021 are as follows:

Taxable income	Tax on this income
0 – \$18,200	Nil
\$18,201 – \$45,000	19 cents for each \$1 over \$18,200
\$45,001 – \$120,000	\$5,092 plus 32.5 cents for each \$1 over \$45,000
\$120,001 – \$180,000	\$29,467 plus 37 cents for each \$1 over \$120,000

Furthermore, the Low Income Tax Offset increased to \$700, up from \$455 and the Low and Middle Income Tax Offset (a tax offset up to \$1080) was retained for the 2021 income year. These two changes effectively allow low income taxpayers to earn up to \$23,226 before paying any tax, excluding the Medicare levy, if applicable.



Covid-19 & Working From Home

As many employees have been and/or are still working from home due to Covid-19, you may be able to claim costs associated with that requirement, such as heating, lighting, internet, telephone, stationery and office equipment.

The ATO has extended the use of the 80 cents for each hour worked, Covid -19 shortcut rate. This rate encompasses everything used in your home office, including your electricity, depreciation in furniture and equipment expenses, telephone and internet costs. To be able to make a claim you need to have a record of hours worked, such as timesheets or rosters.

Individuals can also choose to use the pre-existing methods which may prove to be more tedious, but may result in a larger claim:

1. The actual cost method – where individuals claim the actual portion of running expenses incurred for working, by keeping a diary that details the work portion of your household running expenses. This can include receipts and documents supporting your claim. *See below for substantiation requirements.*
2. The fixed rate method – a fixed rate of 52 cents for every hour worked in the home office. This applies for electricity and depreciation in furniture expenses. On top of this you are still able to make a claim for the work portion of your phone, internet, office equipment and stationery. *see below for substantiation requirements.*



Early Access to Super Due to Covid-19

Eligible individuals who were in financial difficulty because of Covid-19 were able to access their superannuation until 31st December 2020. If you were one of these individuals, the good news is, these amounts are non taxable.

However, the tax office has been conducting some early checks and they have found that ten percent of withdrawals have been made because applicants have misunderstood the eligibility requirements. As there were quite stringent reasons for accessing your super, the ATO is now reviewing withdrawals and if you don't match up with their checks you can expect them to contact you.

If you think you may have made a mistake, and withdrew your super incorrectly, don't panic yet. To date, the ATO has not yet withdrawn any early super approval declarations or levied any fines against candidates. The removal of the declaration (i.e. you weren't eligible) would simply mean that the withdrawal would become taxable income.



Personal Super Contributions

The maximum concessional (tax deductible) contribution for 2020-21 remains at \$25,000. Superannuation contributions must not exceed \$25,000 from all sources including Super Guarantee Contribution (your employer super) (9.5%), employer

salary sacrifice, and personal contributions, otherwise excess contributions tax can apply. The super guarantee percentage payable on wages, will increase from 9.5% to 10% from the 1st of July.

The ability of those in private practice to pay superannuation to their spouse should also be considered to maximise on tax savings. It is important to first ensure you meet the requirements before making any contributions.



The ATO's Audit Hot Spots

The main focus for the ATO this financial year will include work-related expenses, rental deductions and capital gains from cryptocurrency, property and shares.

While gig-economy (side hustles) workers often earn their income as independent contractors, the term broadly includes people who earn income from bartering or sharing as well, and all activities that earn income. So, if you drive people around, do odd jobs or freelance work, rent out your car or storage space, run social media accounts or sell products, you need to declare this income in your tax return. The ATO, can data match from platforms that play host to a large proportions of Australia's gig economy, like Crypto currency designated service providers, eBay, Uber, Air Tasker and Airbnb.

Please note, income earned from activities that are little more than hobbies don't need to be declared, though deductions can't be claimed either. Don't worry, the hundred bucks you earned from selling your designer handbag or off-loading your 'barely used' bike on eBay don't need to be reported either.

If you intend to claim for the work related portion of your motor vehicle, using the log book method, please make sure your log book is for a twelve week period and documents each work related trip with a date, start and end odometer reading and a description of the trip e.g. a client visit or two customer calls in Kangaroo flat. The ATO has found that the two most common errors are incorrect and/or inaccurate log books and incorrect calculations of cars business use percentage.

Rental property interest is in the firing line. When you are making a claim, make sure that the funds borrowed have no private component, i.e. withdrawals made for a new car. If so, the interest should be proportioned accordingly.

If you intend to lodge early, don't forget to include income items such as interest, dividends, sharing economy platforms and cryptocurrency exchange. These items are generally available to the ATO by the end of July. If you have not included this information, your return will be amended and additional tax will be payable.

Now, more than ever is the time to make sure that any claim you make, meets the following three key principals:

- you must have spent the money yourself and weren't reimbursed by your employer;
- the expense must be directly related to earning your income; and
- you must have a record to prove it.



Substantiation

Home Office - A diary **must** be kept for a minimum of one month in each financial year to enable the calculation of home office usage. The diary should note the date, hours worked and the task performed. The use of your home office must be a requirement of your employer, and your employer may be required to confirm this with the ATO. Usually, your home office claim will be based on a rate per hour basis.

During Covid-19, if you are required to work from home, rosters or timesheets can also be used to substantiate your hours worked from home.

Home Computers - If you have a computer that is not solely used for business, you **must** maintain a diary for at least one month in each income year as evidence of the business usage. The diary should contain a date, hours used and whether the use was private or work related.

Phone & Internet - You **must** keep a diary for a minimum of one month in each year to demonstrate the business usage of mobile/home phone and internet if your claim total exceeds \$50. If your phone bill is representative of your work use, you could use these as substantiation, where you extract the work calls and ascertain a percentage of use per bill.

Evidence of Expenses - The rules require you to maintain records of your expenses claimed, for a period of five years from the date of lodgement of your taxation return. The evidence must have:

- Name of supplier.
- Amount of expense.
- Nature of expense.
- Date expense incurred.
- Date receipt made out.



Substantiation: Exceptions to the Rule

You do not need receipts for the following exceptions; however, you may be asked as to how you worked out the amount of your claim:

- Work expenses that total \$300 or less.
- Deductible laundry expenses up to \$150 (included in the above amount). Although written evidence is not required an employee should keep details of the number of washes done during the year and whether the washes comprised only work clothing, or included both private and work clothing.
- Overtime meal allowances covered by an award (if reasonable and fully expended).
- Small expenses under \$10 each to a total of \$200 may be claimed providing the expenses are recorded in an expense diary.
- Expenses too hard to substantiate - if the Tax Office consider that it would have been unreasonable to obtain written evidence.



Small Business News for 2021

A few changes for small business:

- There have been a raft of changes to depreciation rules this year. Effectively this year, any asset that you purchase will be fully expensed in this financial year as long as the asset is installed ready for use. You will also be able to write off the balance of any plant and equipment general pool.
- There has also been an increase to the Small Business Tax Offset (SBITO). The discount rate has increased from 8% to 13%. However, the maximum offset is still capped at \$1,000.
- Super Guarantee (SG) Contributions will rise from 9.5% to 10% from the 1st July 2021.
- The Company Tax Rate reduced from 27.5% down to 26% from the 1st July 2020 and will reduce again from 1st July 2021 to 25%.

Business End of year checklist:

Pay quarterly super - Super Guarantee (SG) contributions must be paid and received by the Super fund by the 30th June 2021 to qualify for a tax deduction in the 2020/2021 financial year.

Review capital expenditure – do you require any new equipment. The only requirement is that it is paid for, installed and ready for use by the 30th June, in order to claim the expenses in the financial year.

Stocktake - Obsolete, slow-moving or damaged stock should be identified by the 30th June and disposed of for income purposes in order to receive a deduction.

Defer income - Businesses may wish to defer invoicing until after the 30th June so that income from the payments won't be taxed until the following financial year.

Bring forward purchase of stock/consumables - Businesses may want to increase stock levels or consumables in order to claim the deduction in this financial year.

Personal Super Contribution - If you intend to make a claim for superannuation on your tax, make sure your contribution is banked into your super funds account before the 30th June.



Interviews for Taxation

As Covid-19 is still with us, I am still complying with all state and federal government regulation in relation to Covid-19. If you are coming in to see me, I now require you to “check in” using the QR code. If you are unable to do this for any reason, please let me know and I will check you in using the government QR code kiosk.

As long as there are no “lock-downs” I am happy to do face to face meetings. I am also still offering Zoom or phone meetings to those people who want to use this method. Just let me know when you make your appointment which method you would prefer.

Interview Times

Monday to Friday 10am to 4.30pm

Saturday 9am to 12pm

(10th July 2021 to 21st August 2021)



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Disclaimer

Taxation Laws are constantly changing and this newsletter takes the form of generalised comments only. Because of this, you should, before acting on this information, seek specific advice, having regards to your own personal situation.