



YEAR END STRATEGIES

2021 INFORMATION BULLETIN

TAX RATE CHANGES

Below are the tax rates for 2020/21 to 2023/24. It is also proposed from 1 July 2024, the 32.5% rate will drop to 30% and the top threshold of this bracket will increase from \$120,000 to \$200,000, removing the 37% tax bracket completely.

2020/21 to 2023/24		2024/25	
Individuals		Individuals	
\$	Tax Rate	\$	Tax Rate
0 – 18,200	0%	0 – 18,200	0%
18,201 – 45,000	19%	18,201 – 45,000	19%
45,001 – 120,000	32.5%	45,001 – 200,000	30%
120,001 – 180,000	37%	200,001 +	45%
180,001 +	45%		

The Medicare Levy rate is **2.0%** for 2020/21 where applicable (generally being income above \$23,226 for a single person or \$39,167 for a couple).

The Medicare Levy rate is also scheduled to remain as **2%** for future Financial Years.

LOW INCOME TAX OFFSET (LITO)

The Low-Income Tax Offset (LITO) has increased to \$700 (from \$445) for 2020/21 for incomes up to \$37,000. The LITO phases out once income is above \$66,667.

This LITO is unavailable to minors (taxpayers under 18 years) on unearned income. Therefore, the tax-free amount that can be distributed to children under 18 years from a trust in the 2020/21 year remains as **\$416** (subject to no other passive income).

NOEL MCKENNEY & CO PTY LTD
CHARTERED ACCOUNTANT

813 Wellington Street
(CNR Coolgardie Street)
WEST PERTH WA 6005

*

PO Box 388
WEST PERTH WA 6872

*

TEL (08) 9322 6266

*

FAX (08) 9322 1385

*

EMAIL

info@mckenney.com.au

*

WEBSITE

www.mckenney.com.au

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IN THIS GUIDE

- * Tax Rates for Small Companies
- * Private Health Insurance Rebate Changes
- * Trust Distributions
- * Loans to Shareholders
- * Small Business Tax Concessions
- * Tax Offsets
- * Small Business Tax Discount
- * Superannuation
- * FBT, CGT & GST
- * Prepayments
- * Late Lodgement Penalties
- * Single Touch Payroll

LOW AND MIDDLE INCOME TAX OFFSET (LAMITO)

LAMITO is a temporary tax offset applying between 1 July 2018 and 30 June 2022. Australian resident individuals whose income does not exceed \$126,000 are entitled to the new low and middle income tax offset. Entitlement to this offset *is in addition* to the existing low income tax offset as detailed above. This offset is available on assessment on lodgement of your income tax return.

LAMITO taxable income thresholds are as follows (maximum claim is \$1,080):

<u>Taxable income</u>	<u>LAMITO</u>
\$37,000 or less	\$255
\$37,001 to \$48,000	\$255 plus 7.5% of the portion of your taxable income that exceeds \$37,000
\$48,000 to \$90,000	\$1,080
\$90,000 to \$125,333	\$1,080 less 3.0% of the portion of your taxable income that exceeds \$90,000

Don't confuse LITO with LAMITO or LISTO!

Low Income Superannuation Tax Offset "LISTO" is a refund of superannuation contributions tax payable direct by the ATO to their super fund member account for low-income taxpayers (*see more details below*).

SENIOR AUSTRALIANS AND PENSIONERS TAX OFFSET (SAPTO)

The amounts that can be earned tax-free by Senior Australians eligible for the Senior Australians and Pensioners Tax Offset (SAPTO) in 2020/21 are \$32,279 for singles and \$57,948 for couples living together.

COMMONWEALTH SENIORS HEALTH CARD

This concession card can get cheaper health care and some discounts if you've reached Age Pension age, and meet the residence and an adjusted income test. Currently to meet the income test you must earn no more than the following:

- \$55,808 a year if you're single,
- \$89,290 a year for couples,
- \$111,616 a year for couples separated by illness or respite care.

COMPANY TAX RATE

The 2020/21 company tax rate for private companies depends on whether the company is defined as a "Base Rate Entity".

If the company qualifies as a "Base Rate Entity" the company income tax rate for 2020/21 is **26.0%**.

Basically, to qualify for this lower rate the company must be carrying on a business, have an annual gross turnover of less than \$50M for 2020/21 and total passive income must be less than 80% of total income. The company tax rate for all other private companies (ie. those with passive income greater than 80%) or turnover greater than \$50M remains at **30%** for 2020/21.

Currently the company tax rate is proposed to be decreased to **25%** over the coming years. The measure will be phased in, depending on the company's size (ie its aggregated annual turnover). Subject to getting passed by Parliament, the proposed phase-in for all companies shown below will be completed in the 2023-24 income year with the company tax rate eventually reduced to 25% for all companies.

Income Year	Companies Below Aggregated Turnover Threshold – tax rate of 27.5%		Above- threshold tax rate
	Threshold	Tax rate	
2016-17	\$10 million	27.50%	30%
2017-18	\$25 million	27.50%	30%
2018-19	\$50 million	27.50%	30%
2019-20	\$50 million	27.50%	30%
2020-21	\$50 million	26.00%	30%
2021-22	\$50 million	25.00%	30%
2022-23	\$50 million	25.00%	30%
2023-24 and following	all companies	25.00%	

Franking credits will be distributed based on last year's assessable income being applied to the current year applicable company tax rate.

TAX DISCOUNT FOR UNINCORPORATED "SMALL BUSINESSES"

Small businesses not operating via a company structure can receive a benefit from a **13% discount** (increased from 8%) on income tax payable on income from business activity. The discount is **capped at \$1,000 per individual** for each income year, and delivered as a tax offset.

This tax discount is 13% for 2020/21 and it is proposed increase to 16% for 2021-22 onwards.

The maximum value of the discount, however, will remain at \$1,000 throughout.

PRIVATE HEALTH INSURANCE REBATE

The Federal Government Rebate on Private Health Insurance remains means tested. Higher income earning health fund members no longer receive the maximum premium rebate.

In addition, the Medicare levy surcharge (MLS) is progressively increased based on annual income levels. This means high income earners could potentially be taxed up to the maximum of 3.5% (1.5% MLS + the standard 2.0% Medicare Levy) of their income *if they do not have private hospital cover*.

The table below shows the percentage rebates that apply from 1 April 2021 based on the relevant income tiers. All rebate percentages are then adjusted on the 1st April annually by a rebate adjustment factor (which will further reduce the rebate available).

Note that the income used for calculating the Private Health Insurance Rebate and Medicare Surcharge is not just taxable income, but includes the following which are added to taxable income (where applicable) :-

- Reportable Fringe Benefits
- Reportable Superannuation Contributions (i.e. contributions in excess of the Superannuation Guarantee 9.5% threshold)
- Any net investment losses (both rental properties losses and financial investment losses)

	≤\$90,000	\$90,001-105,000	\$105,001-140,000	≥\$140,001
Singles				
Families	≤\$180,000	\$180,001-210,000	\$210,001-280,000	≥\$280,001
Rebate				
	Base Tier	Tier 1	Tier 2	Tier 3
< age 65	24.608%	16.405%	8.202%	0%
Age 65-69	28.710%	20.507%	12.303%	0%
Age 70+	32.812%	24.608%	16.405%	0%



The surcharge levels applicable to 30 June 2021* are:

	≤\$90,000	\$90,001-105,000	\$105,001-140,000	≥\$140,001
Singles				
Families	≤\$180,000	\$180,001-210,000	\$210,001-280,000	≥\$280,001
Medicare Levy Surcharge				
All ages	0.0%	1.0%	1.25%	1.5%

Continued Over/

SUPERANNUATION

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- ### Superannuation Transfer Balance Cap increased to \$1.7M from 1st July 2021

A balance cap on the total amount of accumulated superannuation that an individual can transfer into the tax-free retirement pension phase exists.

Where an individual accumulates amounts in excess of the cap they can maintain this excess amount in an accumulation phase account (where earnings will be taxed at the standard concessional rate of 15 per cent).

Members in the retirement phase with balances above \$1.6M prior to 1 July 2021 have been required to reduce their retirement balance to \$1.6M from pensions commenced from 1 July 2017. Excess balances for these members were converted to superannuation accumulation phase accounts.

A tax on amounts that are transferred in excess of the cap (including earnings on these excess transferred amounts) will be applied, similar to the tax treatment that applies to excess non-concessional contributions.

NEW: From 1 July 2021, all Individuals will have a personal transfer balance cap between \$1.6 million and \$1.7 million. *Individuals who start their first retirement phase income stream on or after 1 July 2021 will have a personal transfer balance cap of \$1.7 million.*

- ### Non-Concessional Superannuation Contributions Cap increased to \$110K from 1st July 2021

For 2020/21 the annual non-concessional contributions cap is \$100,000. Depending on their total superannuation balance, members under 65 years of age have the option of bringing forward up to 3 years non-concessional contributions, hence can be possible to contribute up to \$300,000 in one year and nothing for the following two years.

Up until 30th June 2021 a member's total superannuation balance must have been below the "transfer balance cap" (i.e. \$1.6 million for 2020/21) to be eligible to make further non-concessional contributions into their superannuation fund.

The 2020/21 contribution and bring forward available to members under 65 is outlined in the following table:

Total Superannuation Balance	Contribution and bring forward
Less than \$1.4 million	Access to \$300,000 cap (over 3 years)
Greater than or = to \$1.4m and less than \$1.5 million	Access to \$200,000 cap (over 2 years)
Greater than or = to \$1.5m and less than \$1.6 million	Access to \$100,000 cap (over 1 year)
Greater than or = to \$1.6 million	Nil

The balance is measured at 30 June of the previous year in which the contribution is made and is tested each financial year.

NEW: For 2021/22 the annual non-concessional contributions cap increases to \$110,000 for those eligible taxpayers. As such the 2021/22 contribution and bring forward available to members under 65 is updated in the following table:

Total Superannuation Balance	Contribution & Bring Forward Available
Less than \$1.48 million	Access to \$330,000 cap (over three years)
Greater than or equal to \$1.48 million and less than \$1.59 million	Access to \$220,000 cap (over two years)
Greater than or equal to \$1.59 million and less than \$1.7 million	Access to \$110,000 cap (no bring-forward period, general non-concessional contributions cap applies)
Greater than or equal to \$1.7 million	Nil

Please contact us for further detail regarding your ability to contribute non-concessional amounts.

"Small business CGT concessions cap"

It is possible, via a valid election, to make a personal super contribution using the capital proceeds of the sale of certain small business assets, and have them excluded from your non-concessional contributions cap.

The CGT cap amount for the 2020/21 year is \$1.565M.

Please contact us if you wish to discuss the amount of your caps that have been used to date.

- ### **NOW AVAILABLE:** Allowing Catch-Up of Concessional Superannuation Contributions:

Individuals with a superannuation account balance less than \$500,000 are allowed to make additional concessional contributions for "unused cap amounts" where they have not reached their annual concessional contributions cap in previous years.

Only unused amounts accrued from 1 July 2018 can be carried forward, and can only be carried forward on a rolling basis for a period of five consecutive years. The first year in which you can access these unused concessional contributions was the 2019–20 financial year.

- ### Tax Deductions For Personal Super Contributions Extended

Since 1 July 2017 all individuals up to age 75 are able to claim an income tax deduction for personal super contributions (*subject to work test, see below*). This effectively allows all individuals, regardless of their employment circumstances, to make concessional super contributions up to the concessional cap.

Those who should benefit from this change are Individuals who are partially self-employed and partially wage and salary earners (eg contractors), and individuals whose employers do not offer salary sacrifice arrangements.

SUPERANNUATION cont'd .../

- **Contribution Rules For Those Aged 65 To 74:**
WORK TEST REMAINS until 1st July 2022:

A 'work test' restriction remains for people aged 65 to 74 making concessional superannuation contributions for their retirement up to 30th June 2022.

This 'work test' must be passed before a concessional superannuation contribution is made. To pass the work test a taxpayer must work 40 hours in a continuous 30-day period during the financial year.

Commencing 1st July 2019, an exemption has been provided from the work test requirement for voluntary superannuation contributions made by individuals aged 65-74 with superannuation balances below \$300,000 – but only for the first year that they do not meet the work test requirements (ie for one more year after they stop working).

NEW: From 1 July 2020, voluntary superannuation contributions (both concessional and non-concessional) will be able to be made by those aged 65 and 66 without meeting the work test.

People aged 65 and 66 will also be able to make up to 3 years of non-concessional contributions under the bring-forward rule. This broadly aligns the work test with the eligibility age for the age pension.

- **Tax exemption on earnings supporting income streams removed**

The tax exemption on earnings of assets supporting Transition to Retirement Income Streams (TRISs) was removed from 1 July 2017. This applies for income streams of individuals over their preservation age but under 65 and not retired.

- **Lump Sum Withdrawals from 1 July 2017**

The rule that allowed individuals to treat certain superannuation income stream payments as lump sums for tax purposes was also removed as from 1 July 2017.

- **Payment Date – EMPLOYERS NOTE**

Only those Superannuation contributions PAID AND RECEIVED BY THE FUND before 30 June 2021 will obtain a deduction in the 2020/21 year. If not paid by 30 June 2021, you only have until 28 July 2021 to ensure that the superannuation contribution (of at least 9.5% of employees' gross wages) is paid into a superannuation fund on their behalf in order to be tax deductible. Payments made after the 30 June but before the 28 July 2021 will be deductible in the 2021/22 financial year.

The minimum amount of contributions to be made on behalf of an employee is 9.5% of an employee's gross wages for each quarter of the 2020/21 year.

NEW: **NOTE:** *The minimum contribution rate increases to 10% from 1st July 2021.*

Contributions should be made to a complying superannuation provider at least every quarter, by the 28th day after each quarter.

From 1st July 2018 the Government has allowed individuals whose income exceeds \$263,157 and have multiple employers to nominate that their wages from certain employers above the limit are not subject to the superannuation guarantee (SG). The measure will allow eligible individuals to avoid unintentionally breaching the \$25,000 concessional cap as a result of multiple compulsory SG contributions (ie \$263,157 x 9.5% = \$25,000)

NEW: **Removing the \$450 per month superannuation guarantee threshold**

Currently employees need to earn \$450 per month to be eligible to be paid the superannuation guarantee. As from 1st July 2022 this threshold will be removed so all employees will be paid super guarantee *regardless of their income earned.*

- **Super contributions of proceeds up to \$300,000 from downsizing a home**

As from 1 July 2018 the Government allows a person aged 65 or over to make a non-concessional contribution of up to \$300,000 from the proceeds of selling their home. These contributions are in addition to those currently permitted under existing rules and caps and will be exempt from the existing age test, work test and the \$1.6m total superannuation balance test for making non-concessional contributions (mentioned above, applying from 1 July 2017).

NEW: *From 1 July 2022, the government proposes to extend the ability to make downsizer contributions to those aged 60 and over.*

- **First home super saver scheme**

As from 1 July 2017 the Government has had a scheme whereby voluntary contributions to superannuation made by first home buyers can be withdrawn for a first home deposit, along with associated deemed earnings.

Concessional contributions and earnings that are withdrawn will be taxed at marginal rates less a 30% offset.

Under the measure up to \$15,000 per year and \$30,000 in total can be contributed, within existing caps.

Contributions have been able to be made since 1 July 2017. *Withdrawals have been allowed since 1 July 2018.*

Both members of a couple can take advantage of this measure and combine savings for a single deposit to buy their first home together.

NEW: *From 1 July 2022, the government proposes that the current maximum releasable amount of \$30,000 will increase to \$50,000.*

SUPERANNUATION cont'd .../

● **SUPERSTREAM reporting for the receipt of Employer Contributions**

ALL businesses are required to report via SuperStream. "SuperStream" is the government reform aimed at improving the efficiency of the superannuation system. Under SuperStream, all employers must make super contributions on behalf of their employees by submitting data and payments electronically in a consistent and simplified manner.

Basically this means that employers and funds will have to have a complying electronic mailbox set up to accept various employer contributions.

The information flowing through this electronic mailbox can be used by the ATO to ensure that employees are being paid their super contributions on time.

SMSF Trustees Note: Your SMSF doesn't need to use SuperStream if it doesn't receive any employer contributions, or the only employer contributions are from related-party employers. For example, if you're an employee of your family business and your super guarantee contributions go to your SMSF, these contributions are exempt from the SuperStream standard.

● **Superannuation contributions taxed at 30% for incomes above \$250,000: (Division 293 tax assessments)**

Contributions Tax for Individuals with "adjusted income" greater than \$250,000 will be at 30% rather than 15% on their concessional (deductible) 2020/21 superannuation contributions.

Note that the definition of "adjusted income" for the purpose of this measure will include taxable income, reportable superannuation contributions, adjusted fringe benefits, total net investment losses, target foreign income and tax-free government pensions and benefits, less child support.

● **Superannuation deductible limits**

The previous restriction related to the age of a taxpayer has been removed. Therefore, the concessional contributions cap is the same for all taxpayers. The limit represents the maximum tax deduction available to taxpayers (including employer SG Contributions):

2020/21:

All taxpayers	\$25,000
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NEW: From 1 July 2021, the concessional contributions cap increases to \$27,500 for all eligible taxpayers.

Note: For personal concessional contributions, taxpayers must give their fund a "Notice of intent to claim a deduction" to their fund and obtain acknowledgement from their fund before the deduction is claimed via their 2021 tax return.

● **Reportable Employer Super Contributions**

If Super Contributions are made for an employee under a salary sacrifice arrangement, the employer needs to report those contributions on the employee's annual payment summary as Reportable Superannuation Contributions. Reportable employer super contributions are those contributions you make for an employee where all of the following apply:

- * The employee influenced the rate or amount of super you contribute for them.
- * The contributions are in addition to the compulsory contributions you must make under an industrial agreement, the trust deed or governing rules of a super fund or a federal, state or territory law.

- These additional contributions (usually any contributions over the compulsory 9.5%) will be added back to taxable income to determine entitlement to various benefits and tax concessions such as Private Health Insurance Rebates, Medicare Surcharge, Division 293 assessments and family tax benefits for individual taxpayers.

● **Employee Tax File Numbers**

When your employee fills out a Tax File Number Declaration Form you must pass on the employee's TFN to their super fund or retirement savings account (RSA) provider.

You must give the TFN to your employee's fund by whichever is the later of the following:

- for new employees – when you make the first contribution for them
- for existing employees – when you make the next contribution for them, or
- within 14 days after receiving their Tax File Number Declaration Form.

NOTE: Employees can also access and complete these pre-filled commencement forms online via their personal MyGov login.

● **Super Co-contributions 2020/21 - Low Income Superannuation Tax Offset "LISTO":**

For eligible low income earners who make personal super contributions to a complying super fund or retirement savings account (RSA), the Government will match your personal super contribution with a co-contribution direct to your super fund member account of up to \$500 for 2020/21.

To be eligible for the Super Co-contribution you need to firstly make a personal contribution to your superannuation fund which is not tax deductible, earn "adjusted" Taxable income for 2020/21 of less than \$37,000 and 10% or more of your total income must come from employment and / or business operations.

SUPERANNUATION cont'd .../

RATE CHANGE: Minimum Pension Payments:

The minimum annual pension payments required as a percentage of a member's account opening balance are per the below tables. Due to the impact COVID-19 has had on financial markets the usual rates have been halved until 30th June 2022. Minimum Pension Payment rates applicable are:

Age at 1st July	2020/21	2021/22	2022/23
Under 65	2.0%	2.0%	4.0%
65 – 74	2.5%	2.5%	5.0%
75 – 79	3.0%	3.0%	6.0%
80 – 84	3.5%	3.5%	7.0%
85 – 89	4.5%	4.5%	9.0%
90 – 94	5.5%	5.5%	11.0%
95 or more	7.0%	7.0%	14.0%

NOTE: The minimum pension must be paid to the member *prior* to 30th June 2021 to ensure the 2020/21 earnings from the pension portion of a fund's assets are given tax-free status.

• **SMSF Trustees Note**

Rules for trustees of Self-Managed Super Funds

When preparing the annual Financial Statements we remind trustees of SMSFs to:

- Value the fund's assets **at market value at year end** for the purpose of preparing financial accounts and statements of the fund,
- Consider insurance for their members as part of the fund's investment strategy; and
- Review the fund's investment strategy on a regular basis

Trustees who fail to comply with these requirements may be subject to penalties.



BUSINESS

NEW: COVID-19 STIMULUS MEASURES

The Coronavirus has presented a fast-evolving raft of measures aimed at supporting individuals and businesses through the current health crisis. Whilst not comprehensive, the measures below are those that should be reviewed as they may present an opportunity that will only be accessible for a limited timeframe. It is important to note that the stimulus measures are subject to constant change and the measures below are as they stand at the time of writing.

• **Instant Asset Write-off For Eligible Businesses**

Eligible businesses with a turnover of less than \$500 Million will be able to claim an immediate deduction for the business portion of the cost of an eligible asset costing less than \$150,000 (excluding GST) purchased between 1st July 2020 and 6th October 2020 provided that the asset is first used, or installed for use prior to 30 June 2021 (for the deduction to be claimed in FY 2020/21). This applies on an asset-by-asset basis and can be used for assets that are both new *and* used.

NEW: The eligible businesses with a turnover of less than \$5 Billion will be able to claim an immediate deduction for the business portion of the cost of eligible assets with no cost limit purchased between 6th October 2020 and 30th June 2021 provided that the asset is first used, or installed for use prior to 30 June 2021 (for the deduction to be claimed in FY 2020/21). This applies to second hand purchased after 6th October 2020 only if the business turnover is under \$50 Million. Small Business Entities that have elected to use the simplified depreciation measures and have a small business pool will be able to claim a deduction at 30 June 2021 for the balance of their general pool provided that this is also less than \$150,000.

NEW: Note The instant write-off of \$150,000 has been further extended to assets that are installed and ready for use prior to 30th June 2023.

• **Accelerated Depreciation**

An additional incentive for businesses turning over less than \$500 million is the ability to claim depreciation on eligible assets (broadly, new assets costing more than \$150,000) at an accelerated rate. To be an eligible asset, it must meet the following criteria;

- The asset must be new and not held by another entity
- Be first held on or after 12 March 2020
- Be first installed and ready for use between 12 March 2020 and 30 June 2021
- Not be an asset that was depreciated using the instant asset write-off



BUSINESS cont'd/

Eligible small business entities with a turnover of less than \$10 million will be able to claim a deduction of 57.5% of the business portion of a new asset in the first year that it is added to the pool. In the following year, the depreciation rate will be in accordance with general small business pool rules.

Other businesses with a turnover of less than \$500 million that do not use the simplified depreciation rules can apply a 50% accelerated rate to qualifying assets. In addition, these entities will be entitled to claim the usual depreciation deduction that is allowable on the asset after applying the 50% accelerated rate.

- **NEW: Small Business Relief package**

The ATO are offering a range of tailored measures to individuals and businesses impacted by COVID-19. The measures include:

- Payment deferrals
- Changing GST reporting cycle
- Variation of PAYG Instalments
- Remission of interest and penalties
- Low interest payment plans

- **NEW: SME Loan Guarantee Scheme**

Federal Government will guarantee 50% of new loans from eligible lenders to SMEs. The maximum loan obtainable under phase 2 of this scheme is \$1 million. (SME's in this instance being defined as having a turnover of less than \$50 million).

- **NEW: Working From Home: Shortcut rate extended until 30th June 2021**

Given that there was a requirement to work from home for the majority of the workforce during the COVID pandemic, an additional deduction has been made available that offers a shortcut method of claiming home office expenses. This shortcut method allows an individual to claim *80 cents per hour* deduction until 30 June 2021, provided that certain criteria are met. Importantly, the requirement to have a dedicated workspace set aside in your home (such as a study) has been removed.

SMALL BUSINESS CGT CONCESSIONS

*(Only for small business entities with less than **\$2M** qualifying turnover or qualifying assets of less than **\$6M**).*

Use of these concessions can lead to significantly lower or nil tax payable on the sale of business assets.

If contemplating selling your business please contact us to discuss how the changes may impact on your situation.

SMALL BUSINESS CGT ROLLOVER RELIEF FOR CHANGE OF ENTITY STRUCTURE

The Government continues to provide CGT rollover relief for small businesses that change their legal structure.

TAXABLE PAYMENTS ANNUAL REPORT

Businesses in the following industries are required to lodge the details of payments to contractors via the Annual reconciliation report **by 28th August 2021:-**

- Building and construction services
- Cleaning services
- Courier services
- Road freight services
- Information technology (IT) services
- Security, investigation and surveillance services

IMMEDIATE DEDUCTION FOR BUSINESS ESTABLISHMENT COSTS

There is an immediate deduction for a range of professional expenses associated with starting a new "small" business, such as professional, legal and accounting advice.

PREPAYMENTS (Non-Small business entity Taxpayers)

Prepayments of \$1,000 or more made by business taxpayers other than those who qualify as a Small Business Entity CANNOT be claimed as an outright deduction, and are claimed over the period for which the payment relates.

BUSINESS cont'd

SINGLE TOUCH PAYROLL (STP)

Single Touch Payroll (STP) is a Government initiative to streamline business reporting obligations. It is a major change in the way employers report wages, tax and super information to the ATO. Single Touch Payroll requires you to report salary or wages, pay as you go (PAYG) withholding and super information to the ATO from your accounting software at the same time you pay your employees. Instead of reporting wages and PAYG withholding to the ATO on your monthly activity statements or quarterly BAS's and super details via your Super clearing house you will report these details to the ATO on every payday.

If you have 20 or more employees you have needed to report this information to the ATO from 1 July 2018. If you have 19 or less employees Single Touch Payroll reporting was mandatory from 30 September 2019.

NEW: From 1 July 2021 all employers are required to report via STP. If you're a small employer you can report these amounts on or before each payday, or you can choose to report this information quarterly. *Please contact us to discuss the best solution for you and your business.*

Employees & STP

In order to receive their payment summaries in July the employees themselves will need to be registered on myGov. Employers will need to ask your employees to register on myGov. You can refer them to the step by step instructions on the Department of Human Services website at <https://www.humanservices.gov.au/individuals/online-help/create-mygov-account>

BAD DEBT WRITE OFFS

A deduction is only able to be claimed for those receivable amounts previously brought to account as income which will not be able to be recovered from customers. Note, however, that this deduction is only able to be claimed once all reasonable efforts have been made to recover the amount. The date the deduction can be claimed is the date that the debt is taken off the debtors' ledger.

Therefore, please review your aged receivables to determine any unrecoverable debtor amounts that should be written off in your accounts before 30th June 2021.



SCRAPPED PLANT & EQUIPMENT & DEPRECIATION (NON-SMALL BUSINESS ENTITY TAXPAYERS)

A periodic review of the depreciation schedule should be conducted to determine whether all assets shown on the list are still in existence. Where plant is not being used or has passed its useful life, consider scrapping it and removing it from your premises. Also ATO rules allow you, in limited cases, to increase the rate at which an asset is written off over time. Please contact us to discuss whether this may be applicable to some of your assets.

INCREASING ACCESS TO COMPANY LOSSES

The 'similar business test' has finally been passed into legislation. This aims to provide greater flexibility for businesses to use past year losses. These changes apply to losses made on or after 1 July 2015. The new 'similar business test' is more flexible than previous tests that applied. It allows companies that have evolved and entered into new transactions or business activities in carrying on a "similar business" to access prior year losses.

Please contact us to discuss the test requirements further.

NEW: TEMPORARY LOSS-CARRY BACK EXTENSION

Companies with an aggregated turnover of less than \$5 billion will be able to carry back losses from the 2019-20, 2020-21, 2021-22 and 2022-23 income years to offset previously taxed profits in the 2018-19, 2019-20, 2020-21 and 2021-22 income years.

Under this measure tax losses can be applied against taxed profits in a previous year, generating a refundable tax offset in the year in which the loss is made. The amount carried back can be no more than the earlier taxed profits, limiting the refund by the company's tax liabilities in the profit years. Further, the carry back cannot generate a franking account deficit meaning that the refund is further limited by the company's franking account balance.

The tax refund will be available on election by eligible businesses when they lodge their 2020-21, 2021-22 and 2022-23 tax returns.

Before the measure was introduced in the 2020-21 Budget, companies were required to carry losses forward to offset profits in future years. Companies that do not elect to carry back losses can still carry losses forward as normal.

BUSINESS cont'd/

LOSSES FROM NON-COMMERCIAL ACTIVITIES

Individuals (*but not companies or trusts*) have to satisfy more rigorous tests to offset losses from certain business activities against other income. Activities that may be considered a hobby such as farming or craft activities require a real commercial flavour. *Negative gearing of property or shares is not affected*. These rules do not apply to a venture where it passes one of the following tests:

- have assessable income (i.e. turnover) of at least \$20,000
- have a profit in 3 of the past 5 years
- use real property worth at least \$500,000
- use other assets (eg plant and equipment, excluding passenger motor vehicles) of at least \$100,000 or
- be a primary producer with less than \$40,000 of other assessable income

Further Restrictions:

Even when these tests are passed, taxpayers with an adjusted taxable income of over \$250,000 will only be able to deduct expenses from non-commercial business activities against the income from those activities. Any excess deductions will be quarantined to that business activity. This will restrict the ability of taxpayers with adjusted taxable income greater than \$250,000 to claim losses for non-commercial activities that are more likely to be in the nature of lifestyle choices or hobbies.

DEDUCTIONS DENIED FOR VACANT LAND

Since 1 July 2019 deductions for holding vacant land will be denied *unless* the land is used to carry on a primary production business, or genuinely held for the purpose of earning assessable income, rather than as an investment.

ALIENATION OF PERSONAL SERVICES INCOME

- Strict legislation remains in place, targeting individuals who divert income generated from their personal services to a company, trust or partnership. Essentially, if the income is from personal exertion, the Commissioner may treat the income as if it were the income of the individual; and limit the amount of work related expenses that can be claimed as tax deductions.

This is a complicated area, so please contact us if you believe you may fall within the scope of these rules.

- The ATO continue to expand their data matching projects to obtain information regarding payments made to contractors.

TRUST DISTRIBUTIONS - TAX FILE NUMBER REQUIREMENTS

- Almost all beneficiaries receiving a distribution from trusts are now required to hold a Tax File Number (TFN) or the trustee must withhold amounts from trust distributions at 47%.

You should ensure you obtain a TFN for any trust, church or other organisations that are likely to receive a trust distribution. Although it is not compulsory for all minor children who receive a trust distribution to have a TFN we recommend they do obtain one.

FRINGE BENEFITS TAX (FBT) & SHAREHOLDER LOANS

FBT ON EMPLOYEE PAYG PAYMENT SUMMARIES

Employers are reminded to record the total taxable value of certain fringe benefits provided to employees where the taxable value exceeds **\$2,000** on employee PAYG Payment Summaries. The total benefits to be recorded on the 30th June 2021 PAYG payment summaries will be the total taxable value for the employee for the 2020/21 FBT year (i.e. 1st April 2020 to 31st March 2021). *Please contact us to discuss the benefits exempted from this reporting requirement.*

FBT AND LAPTOPS EXEMPTION **Bonus for Small Businesses:**

Small Business employees are allowed more than one qualifying work-related portable electronic device, eg tablet or laptop. *For all other businesses* the FBT exemption for work-related portable electronic devices (tablets, laptop or smartphone) is *limited to one item* of each type per employee per year.



COMPANY LOANS TO SHAREHOLDERS AND ASSOCIATES

It is necessary to review loan accounts for companies if funds have been “borrowed” or funds drawn from a private company bank account during the year. The overdrawn amount must either be repaid or there must be a written loan agreement in place before the due date for the lodgement or actual lodgement date of the company tax return. Where a loan was taken out in a previous year under a written loan agreement a minimum repayment must be made before 30th June the following year. Loan repayments can be made by “paying” a dividend, which may be franked, but could also attract further tax liability. If the loan has not been repaid and is not covered by a written loan agreement, it may be treated as a fully taxable and unfranked “deemed dividend”.

Significant changes were announced in the 2016-17 Federal Budget as to how the above loans would be treated going forward. As at the time of writing, the introduction of these changes is still deferred, with no legislation prepared for these proposed changes. Expectation is that any changes maybe further deferred until the 2022/23 year. As such any impact that these changes will have on current and future cashflow should be considered.

Please contact us to discuss any ramifications for your company.

DEEMED DIVIDENDS / PRIVATE USE OF COMPANY ASSETS

These rules attempt to ensure that benefits provided by a private company to its shareholders or their associates are taxed. This is done by tightening the rules that prevent shareholders and their associates avoiding tax on benefits they receive from private companies. The measure extends the non-commercial loan rules to include payments by way of a licence or right to use real property and chattels. This reduces the scope for private companies to allow their shareholders or associates to use company assets such as real estate, cars and boats for free, or at less than their arm's length value.

Please contact us to discuss how this measure may apply to your company's assets.

GST



GST REGISTRATION THRESHOLD

Businesses (other than taxi and ride-sharing services) with an annual turnover of less than \$75,000 **are not required** to register for GST.

Also, if taxpayers satisfy the other eligibility tests for annual PAYG instalments those who are voluntarily registered for the GST and who choose to remit GST annually, can choose to also pay their PAYG instalments annually.

ATO DETERMINED GST QUARTERLY PAYMENT AMOUNT

Clients that have chosen to use the ATO determined GST payment amount method to pay GST are reminded that they need to lodge an “Annual GST return” by the due date for lodgement of their 2019/20 tax return.

PERSONAL TAX

REAL ESTATE SALES: CAPITAL GAINS WITHHOLDING CLEARANCE CERTIFICATE

ALL Australian residents, selling property with a market value **over \$750,000** (GST exclusive) will need to get a clearance certificate from The Australian Taxation Office (ATO).

A 12.5% withholding tax now applies when foreign residents sell certain types of Australian property. If you are selling Australian property, you should consider obtaining a clearance certificate from the ATO. Without this clearance certificate, the purchaser must withhold 12.5% of the purchase price and pay this to the ATO as a prepayment of your tax liability.

RENTAL PROPERTIES: NO DEDUCTION FOR RESIDENTIAL RENTAL PROPERTY TRAVEL EXPENSES

Travel expenses related to the inspecting, maintaining or collecting rent for a residential rental property continue to be non-deductible.

RENTAL PROPERTIES: RESTRICTION ON DEPRECIATION DEDUCTIONS

The Government has limited "plant and equipment" depreciation deductions to outlays actually incurred by investors in residential real estate properties. Existing depreciation claims are unaffected by this measure so it only affects depreciation deductions for taxpayers who bought an existing rental property after 1st July 2017.

HIGHER EDUCATION LOAN PROGRAMME (HELP) THRESHOLDS

The Higher Education Loan Programme (HELP) repayment thresholds for the 2020/21 year commence once an individual taxpayer's income is above **\$46,620** at a starting rate of 1%, then at various rates up to the maximum of 10% when HELP repayment income (HRI) exceeds **\$136,740**. The income on which the HELP repayment is based is the sum of the taxable income plus reportable fringe benefits, reportable super contributions, exempt foreign employment and any exempt employment income. Net rental losses are added back, i.e. they are not allowed to reduce income.

NEW: *As from 1 July 2021 the minimum income threshold increases to \$47,014. The Repayment rate at this income will be 1%. The upper minimum income threshold is proposed to be \$137,898. At this level of income and higher the repayment rate will be 10% of the HELP repayment income earned.*

CAR EXPENSE CLAIMS: ONLY TWO METHODS OF DEDUCTION CALCULATIONS

There are only **two** methods available to individual taxpayers for the calculation of their motor vehicle expenses. This means only the "cents per kilometre" and the "log-book" methods can be used to calculate the motor vehicle expense claims against wages income.

Please ensure your log book records are up to date to ensure you are claiming .the highest deduction possible.

LATE LODGEMENT PENALTIES

Please send in your information for the preparation of the income tax returns, BAS and IAS forms as soon as possible. Early preparation will minimise the risk of late penalties being imposed by the ATO and give you early notice of any amounts payable or prompt issue of any refunds.

The Failure to Lodge on Time (FTL) penalty applies to the lodgement of many tax documents including income tax returns, BAS and IAS forms and Fringe Benefits Tax returns. They may apply even where no tax is payable or a refund is due.

Any document not lodged on time may have a penalty notice automatically issued.

FTL penalty units are calculated as follows:

- Small entities are liable to a penalty of \$222 for each period of 28 days (or part thereof) that lodgement is overdue
- Medium entities are liable to a penalty of \$444 for each period of 28 days (or part thereof) that lodgement is overdue
- Large entities are liable to a penalty of \$1,110 for each period of 28 days (or part thereof) that lodgement is overdue

Although the ATO states that the penalty might be remitted if the taxpayer has a good compliance record, once the penalty is imposed it can be very difficult and time consuming to convince the ATO to actually remit it.

FTL penalty and General Interest Charge (GIC) will both be imposed where a form is lodged late and tax is paid after the due date. The GIC rate varies each quarter. For the quarter ending 30th June 2021 the rate is **7.01%**.

ATO REVIEW ACTIVITY

ATO TAX AUDITS & BAS RETURNS

The ATO continues to compare sales and other figures shown in taxpayers' BAS returns with the figures shown in their income tax returns. Where there is a material variation the ATO is requesting explanations and/or is likely to make that taxpayer an audit target.

Therefore, it is important that all labels on the BAS return and not just the GST and PAYG payable labels are completed correctly to avoid ATO scrutiny.

The ATO simplified the labels required to be completed on BAS's for small business as from 1st July 2017 – contact us to see if you can take advantage of this procedure.

ATO DATA-MATCHING

The ATO continues to expand their third-party sources of information they obtain for their review. This information is used to electronically compile, validate and analyse the data for a range of ATO "education" and compliance activities.

Data sources sought by the ATO are many and links to include employment contract services, insurers of "lifestyle" assets, Motor Vehicle (& boat) registries, Online Selling websites, rental bond registers, ride-sourcing, share economy accommodation (eg Air BnB) and also includes cryptocurrency.

Please contact us to discuss the relevance of the data they collect and ATO benchmark percentages issued that may relate to your business.

SELF-ASSESSMENT

BEWARE! Income tax returns are lodged under a "self-assessment" system. Harsh penalties can be imposed for incorrect returns. In most cases, records must be retained for a period of 5 years after the return is lodged so that claims can be substantiated if required in a subsequent audit.

You should retain all information in relation to the 2020/21 tax year until at least 2027.

For assets subject to capital gains tax, records of the purchase and sale must be kept for 5 years after the sale of the asset.

AUDIT INSURANCE COVER

Given the high costs involved in dealing with any ATO audit/review queries, we continue to obtain to a tax audit insurance policy. Generally the policy covers the costs of the time spent by us dealing with ATO queries for a relatively small tax-deductible annual fee. If you haven't already commenced cover please contact us if you would like to investigate this insurance further.



NOEL MCKENNEY & CO PTY LTD
CHARTERED ACCOUNTANT



We Are Here To Help

This guide is merely a starting point, designed to help you identify areas that might have a significant impact on your tax planning.

Please keep us informed of your plans and consult us early for help in taking advantage of tax-saving opportunities and tax effective investments

T: (08) 9322 6266

E: info@mckenney.com.au

W: www.mckenney.com.au