



June 2021

2021/22 Federal Budget Highlights

Last month the Treasurer Josh Frydenberg released the Federal Budget and the focus is on economic recovery and investment to support job creation to drive economic growth. The Treasurer announced an expected deficit of \$161 billion, \$36.7 billion lower than the \$197.7 billion estimated in the Government's December Mid-Year Economic and Fiscal Outlook (MYEFO) which suggests our economy is recovering at a much faster rate than expected.

Australia's GDP growth is expected to come in at 1.25 per cent this financial year and while some sectors such as recreation and personal service businesses have returned to operating at pre-COVID levels, other sectors impacted by the ongoing border closure face significant challenges. With Australia's borders unlikely to re-open until at least mid-2022, immigration and international tourism are still off the agenda, as are most international student arrivals. Immigration and international students are important, not only for the industries and businesses they support through their spending, but they also supply labour in many industry sectors.

Much of the spending in this Federal Budget is focused on short-term measures for continued economic recovery to get the unemployment rate below 5 per cent. The focus is on large spending on infrastructure and targeted support for industries that will continue to suffer while our borders remain closed. Some of the key measures announced in the Budget include:

- 12-month extension of the temporary full expensing measures (instant asset write off) introduced in the 2020/21 budget to allow a deduction for the full cost of eligible depreciating assets (first used or installed ready for use) for entities with aggregated turnover of less than \$5 billion.
- 12-month extension of the Loss Carry-Back Offset introduced in the 2020/21 Budget, allowing corporate entities to carry back tax losses for the 2022/23 income tax year for up to four income years.
- \$15 billion in additional infrastructure commitments including a new intermodal terminal in Melbourne and a new airport in NSW.
- A range of welfare spending initiatives, including \$13.2 billion allocated to the National Disability Insurance Scheme and \$17.7 billion for new aged care funding.
- Consumption stimulus through the extension of the low and middle-income tax offset (LITMO) for a further year.
- A \$1.7 billion investment in childcare to drive workforce participation and women's economic security.



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2021/22 Federal Budget - Personal Income Tax

The Government will maintain changes to reduce personal income tax. This measure is designed to continue to stimulate the economy by increasing the disposable income available to individuals.

Income Tax Offsets

The Treasurer confirmed that the Low and Middle Income Tax Offset (LMITO) will be retained for the 2021/22 income tax year. It provides a reduction in tax of up to \$255 for taxpayers with a taxable income of \$37,000 or less. The LMITO will increase at a rate of 7.5 cents for every dollar of taxable income between \$37,000 and \$48,000 and taxpayers with taxable incomes between \$48,000 and \$90,000 will receive the full \$1,080. For taxpayers with a taxable income over \$90,000, the LMITO will phase out at a rate of 3 cents for every additional dollar of taxable income. It will phase out completely at a taxable income of \$126,000.



The Low Income Tax Offset (LITO) will also continue to apply for the 2021/22 income tax year. For taxpayers with taxable incomes of less than \$37,000, the offset is \$700. The offset then reduces at a rate of 5 cents for each dollar of taxable income to \$45,000 and at a rate of 1.5 cents for each subsequent dollar of taxable income, completely phasing out for taxable incomes above \$66,668.

Personal Tax Rates

There have been no changes to the personal income tax rates for the 2021/22 income year. Stage 3 of the Government's personal income tax plan remains unchanged and should commence from July 1, 2024. The table below summarises the resident personal tax rates and thresholds (excluding the 2% Medicare levy).

Tax Rate	Tax Payable	2021/22 (Per 20/21 Budget)	2024/25 Previously Announced
0%	\$ 0	\$0 - \$18,200	\$0 - \$18,200
19%	\$ 0	\$18,201 - \$45,000	\$18,201 - \$45,000
30%	Not Applicable	Not Applicable	\$45,001 - \$200,000
32.5%	\$5,092	\$45,001 - \$120,000	Not Applicable
37%	\$29,467	\$120,001 - \$180,000	Not Applicable
45%	\$41,667	\$180,001+	\$200,001+

Medicare Levy Low-Income Thresholds

For the 2020/21 income year, the Medicare levy low income threshold for singles will be increased to \$23,226 (up from \$22,801). For couples with no children, the family income threshold will be increased to \$39,167 (up from \$38,474). For each dependent child or student, the family income threshold will increase by \$3,597 (up from \$3,533).

For single seniors and pensioners eligible for the seniors and pensioners tax offset, the Medicare levy low income threshold will be increased to \$36,705 (up from \$36,056). The family threshold for seniors and pensioners will be increased to \$51,094 (up from \$50,191).

	2020 21 Threshold
Singles	\$23,226 (was \$22,801)
Families	\$39,167 + \$3,597 for each dependent child or student
Single Seniors & Pensioners	\$36,705 (was \$36,056)
Family Threshold - Seniors & Pensioners	\$51,094 + \$3,597 for each dependent child or student

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2021/22 Federal Budget - Personal Income Tax (Continued)

Simplifying Deductions for Self-Education Expenses

Currently, individuals undertaking a prescribed course of education are only entitled to deduct the excess of the expenses incurred over \$250. This exclusion of the first \$250 of eligible self-education expenses is to be removed and this measure will take effect from the first income year after the date the amending legislation receives Royal Assent.



Simplifying the Australian Residency Rules

The existing tests for the tax residency of individuals will be replaced by a primary 'bright line' test. Any person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident.

Simplifying Employee Share Schemes

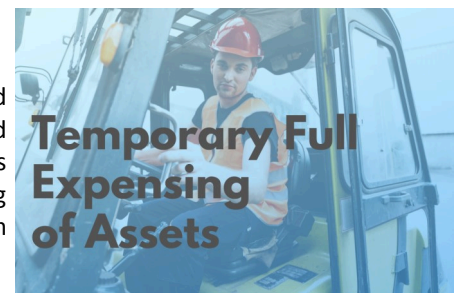
Leaving an employer will no longer be a taxing point for employee share scheme entitlements. This means that tax deferral for the employee share scheme entitlements will continue until forfeiture conditions have passed and shares held are able to be freely sold, subject to the maximum 15-year tax deferral period. Currently, forfeiture conditions and sales restrictions are often lifted at the time employments ends. The value of shares that a company can issue to an employee under simplified disclosure requirements will also increase from \$5,000 to \$30,000 per year.

2021/22 Federal Budget - Business Tax

The Government has provided further support for capital investment by businesses and assistance with cash flows by extending the 'temporary full expensing' measure as well as the loss carry-back offset for an additional income year. Important changes to the minimum threshold for the superannuation guarantee charge (SGC) have also been announced.

Extension of Temporary Full Expensing

The temporary full expensing measures introduced in the 2020/21 budget provided a deduction for the full cost of eligible depreciating assets (first used or installed ready for use before June 30, 2022) to entities with aggregated turnover of less than \$5 billion. The measure will now be extended until June 30, 2023 providing additional time for eligible entities to make capital investments and benefit from accelerated tax depreciation.



All other features of the measure remain unchanged including the alternative test for entities that have aggregated turnover of \$5 billion or more, the ability to opt-out on an asset-by-asset basis, availability of full expensing on capital improvements to existing depreciating assets and the ability to write off the entire balance of a general small business pool for small business entities using simplified depreciation.

Extension of Loss Carry-Back Provisions

The loss carry-back offset introduced in the 2020/21 budget will be extended by a further 12 months, allowing corporate entities to carry back tax losses for the 2022/23 income year for up to four income years, as far back as the 2018/19 income year. The loss carry-back offset is available to corporate tax entities with aggregated turnover of less than \$5 billion and is intended to complement the temporary full expensing measure where tax losses are generated through significant capital investments that give rise to immediate deductions. The measure allows for cash refunds with the lodgement of the tax return rather than future tax savings from carrying forward tax losses to later years and can provide additional cash flow to support working capital for companies who make tax losses after previously being in a taxable position.

The loss carry-back offset is limited to a company's franking account balance and this limitation may prevent entities from accessing the measure where they have paid out franked dividends during the year.

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2021/22 Federal Budget - Business Tax (Continued)

Removal of Minimum Income Threshold for Superannuation Guarantee

Currently, employers are not required to make superannuation contributions under the superannuation guarantee legislation for employees in receipt of salary and wages of less than \$450 in any calendar month. Many employers have configured their payroll systems to accommodate this threshold. The Government has announced that this threshold is to be removed with effect, most likely from 1 July 2022. This will mean that superannuation support must be provided to all employees regardless of their level of income in any one month and is designed to ensure low income earners are not disadvantaged. The proposed changes will primarily impact employers with casual and part-time employees such as those in the retail and hospitality industries. Employers will need to keep track of this change to ensure their payroll systems are correctly set up to meet their obligations once the measures take effect.



Extending the SME Recovery Loan Scheme

The Government is extending the SME Recovery Loan Scheme. It includes an increased government guarantee of 80 per cent, a higher maximum loan size of \$5 million and a maximum loan term of 10 years with interest rates capped at roughly 7.5 per cent. Borrowers may also be offered repayment holidays of up to 24 months. The Scheme is available to SMEs with a turnover of up to \$250 million. They must also have been recipients of the JobKeeper payment between January 4, 2021 and March 28, 2021 or were affected by the floods in eligible Local Government Areas in March 2021.

Industry Specific Business News

1. Small craft brewers and distillers will receive an increase in the cap for claims on the Excise Refund Scheme from \$100,000 to \$350,000 from July 1, 2021.
2. Almost \$130 million is going to the New Enterprise Incentive Scheme (NEIS) and Entrepreneurship Facilitators Program, to support people who want to start, run and grow their own business.
3. A 30% Digital Games Tax Offset for eligible businesses that spend a minimum of \$500,000 on qualifying Australian games expenditure. This excludes unclassified games, or those that involve gambling.
4. Aged Care scored a huge boost with \$17.7 billion to be spent over 5 years including 80,000 home care packages and a supplement of \$10 per resident, per day.



2021/22 Federal Budget - Superannuation

Superannuation changes in the Budget provide increased contribution opportunities for individuals over age 60.

Removal of Work Test for Non-Concessional Superannuation Contributions

The Government announced it proposes to permit individuals aged 67 to 74 to make non-concessional (after-tax) contributions to superannuation on the same terms as those currently applying to individuals under age 67 by removing the work test for contributions made from 1 July 2022. Currently, individuals aged 67 and over are subject to a work test, which requires the individual to have worked a minimum of 40 hours over a consecutive 30-day period in the financial year in order to make a voluntary superannuation contribution that year (either concessional or non-concessional).



Although the work test will be removed for non-concessional contributions from July 1, 2022, the test will be retained for personal deductible (i.e. concessional) contributions. The removal of the work test for older Australians also includes increasing access to the bring-forward rule for non-concessional contributions. The bring-forward rule can allow an individual to make three years of non-concessional contributions in one year (e.g. up to \$330,000 from July 1, 2021). However, the ability to make non-concessional contributions will continue to be subject to an individual's total superannuation balance being less than the transfer balance cap (currently \$1.6m increasing to \$1.7m from July 1, 2021) at June 30 of the prior year.

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2021/22 Federal Budget - Superannuation (Continued)

Reducing the Age of Eligibility From 65 to 60 Years for Downsizer Super Contributions

The Government announced that it will reduce the eligibility age where downsizer contributions can be made into superannuation from 65 to 60 years of age, with the changes expected to come into effect from July 1, 2022. These measures will allow a person aged 60 or over to make a one-off non-concessional contribution to their superannuation of up to \$300,000 from the proceeds of selling their principal residence owned for ten years or more prior to the sale. Downsizer contributions do not count towards superannuation contribution caps and are permitted irrespective of a total superannuation balance. Contributions under the measure are available to an individual and their spouse even if only one of them was the owner of the property (i.e. both may contribute up to \$300,000 each from the sale if they each satisfy the conditions). The measure is a targeted reduction in super restrictions that should provide increased incentive for older individuals to downsize sooner, thereby increasing the supply of family homes.



Increase in Maximum Releasable Amount for First Home Superannuation Saver Scheme

The Government announced an increase in the amount of superannuation savings a first home buyer can access to purchase a first home. Under the current First Home Superannuation Saver Scheme, up to \$15,000 of voluntary superannuation contributions a year can be accessed early for the purchase of a first home, with a total withdrawal amount of up to \$30,000 permitted. Under the revised scheme, the annual \$15,000 voluntary contributions amount remains, but eligible individuals will be able to withdraw up to \$50,000 in total of eligible super savings for a first home purchase. This revised scheme is expected to commence from July 1, 2022.

Contributions and associated earnings that are withdrawn under the scheme are taxed at the individual's marginal tax rate, less a 30 per cent tax offset. In most circumstances, the net tax paid on contributions and earnings withdrawn under the scheme would be in the order of 15%. As such, this is likely to be a better outcome compared to the first home deposit being saved personally where ordinary marginal tax rates would apply on earnings. Most first home buyers would benefit from using the scheme and the Government announced some further technical changes to reduce complexity and unintended outcomes which should make the scheme more accessible to first home savers.



Self-Managed Superannuation Funds and Legacy Pension Conversion

The Government stated it will permit individuals to exit legacy pension products, together with any associated reserves, for a limited period of two years. The measure is stated to apply to market-linked pensions, lifetime pensions and life-expectancy pensions in self-managed superannuation funds. Currently, these pensions can only be converted into another pension where access to the underlying capital is generally restricted, with significant tax and estate planning issues arising on such a restructure. The Government also stated that the social security and tax treatment will not be grandfathered for new pensions commenced with commuted funds and that commuted reserves will be taxed as an assessable contribution. Accordingly, the detailed rules and individual circumstances will need to be examined before deciding whether conversion of a legacy pension under this measure is optimal for those who may become eligible to do so. The measure is stated to apply from the first financial year after the date of Royal Assent of the enabling legislation.



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Year End Tax Planning

Business planning is always challenging but planning with a pandemic in the background is incredibly difficult given the uncertainty and international travel restrictions. Border closures have impacted supply chains and some industries have slowed dramatically. As a consequence, for many businesses, the number one priority right now is cash flow.



As we approach the end of the 2021 financial year, tax planning has never been more important and as accountants, we believe our client brief includes helping you minimise your tax liability within the framework of the Australian taxation system. The purpose of this article is to highlight some end of year tax planning opportunities but you need to be proactive and act quickly to take advantage of these strategies. We encourage you to schedule a meeting with us as soon as possible to assess your tax planning options.

To assist you we have put together a list of strategies to consider before June 30 and note:

- To maximise benefits for the current financial year, we suggest you prepare a preliminary calculation of your taxable income for the year ending June 30, 2021 to identify the size of your likely tax debt and establish if you have a tax 'problem'.
- Review all tax-deductible expenses and assessable income in the latest available figures to determine the possibility of pre-paying some expenses before June 30 or deferring some revenue until after July 1, 2021.

Please note, the following list of tax planning opportunities is certainly not exhaustive and depending on your circumstances (including your turnover and whether you are on a cash or accruals method of accounting), some conditions may apply that restrict your use of these strategies. If you would like to discuss your tax planning options, we urge you to contact us today and most importantly, don't leave it until the last minute as some of these strategies require some time to implement.

Key Tax Minimisation Strategies

1. Delay Deriving Assessable Income

One effective strategy is to delay deriving your income until after June 30, 2021 by:

- a) Delaying the timing of the derivation of income until after June 30
- b) Timing of raising invoices for incomplete work (businesses).



Where this strategy will not adversely affect your cash flow, consideration should be given to deferring the recognition of income until after 30 June 2021. Please note, not banking amounts received before June 30 until after June 30 does NOT qualify because the income is deemed to have been earned when the money is received or the goods or services are provided (depending on whether you are on a cash or accruals basis of accounting).

- Cash Basis Income - Some income is taxable on a cash receipts basis rather than on an accruals basis (e.g. rental income or interest income in certain cases). You should consider whether some income can be deferred in those instances.
- Consider delaying the raising of your invoices to customers until after July 1 which will push the derivation of the income into the next financial year and defer the tax payable on that income. If you operate on the cash basis of accounting, you simply need to delay receiving the money from your customers until after June 30.
- Lump Sum Amounts - Where a lump sum amount is likely to be received close to the end of a financial year, you should consider whether this amount (or part thereof) can be delayed or spread over future periods.

2. Bringing Forward Deductible Expenses or Losses

Prepayment of Expenses - In some circumstances, Small Business Entities (SBE) and individuals who derive passive type income (such as rental income and dividends) should consider pre-paying expenses prior to 30 June, 2021. A tax

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Year End Tax Planning (Continued)

deduction can be brought forward into this financial year for expenses like:

- Employee Superannuation Payments including the 9.5% Superannuation Guarantee Contributions for the June 2021 quarter (that have to be received by the Superannuation Fund by June 30, 2021 to claim a tax deduction)
- Superannuation for Business Owners, Directors and Associated Persons
- Wages, Bonuses, Commissions and Allowances
- Contractor Payments
- Travel and Accommodation Expenses
- Trade Creditors
- Rent for July 2021 (and possibly future additional months)
- Insurances including Income Protection Insurance
- Printing, Stationery and Office Supplies
- Advertising including Directory Listings
- Utility Expenses - Telephone, Electricity and Power
- Motor Vehicle Expenses - Registration and Insurance
- Accounting Fees
- Subscriptions and Memberships to Professional Associations and Trade Journals
- Repairs and Maintenance to Investment Properties
- Self Education Costs
- Home Office Expenses – desk, chair, computers etc.
- Donations to deductible gift recipient organisations
- If appropriate, consider prepaying any deductible investment loan interest. This could include interest payments on an investment loan for either an investment or commercial property or an investment portfolio you hold.



A deduction for prepaid expenses will generally be allowed where the payment is made before June 30, 2021 for services to be rendered within a 12 month period. While this strategy can be effective for businesses operating on a cash basis (not accruals basis), we never recommend you spend money on items you don't need. However, paying expenses in June that are due in July could save you some tax this financial year. Of course, this only works if you have sufficient cash flow to prepay the expenses.



Superannuation Contributions - some low or middle-income earners who make personal (after-tax) contributions to a superannuation fund may be entitled to the Government co-contribution. The amount of Government co-contribution will depend on your income and how much you contribute. (Refer to the Superannuation Section below for more information).

Capital Gains/Losses – Note that the contract date (not the settlement date) is often the key sale date for capital gains tax purposes and when it comes to the sale of an asset that triggers a capital gain or capital loss, you need to consider your overall investment strategy when making the decision to sell. Here are several important points regarding the management of capital gains and capital losses on sale of your assets from a tax planning perspective:

- If appropriate, consider deferring the sale of an asset with an expected capital gain (and applicable capital gains tax liability) until it has been held for 12 months or longer. By doing so, you could reduce your personal income tax. For example, if you hold an asset for under 12 months, any capital gain you make may be assessed in its entirety upon the sale of that asset.

The Capital Gains Tax (CGT) Calculation Method*

Individual Taxpayer	Date of CGT event	CGT payable on an asset held < 12 months	CGT payable on an asset held ≥ 12 months
	From 21/09/1999	Tax on 100% of nominal gain	Tax on 50% of nominal gain

*A capital gain will be assessable in the financial year that it's crystallised.

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Year End Tax Planning (Continued)

ii) If appropriate, consider deferring the sale of an asset with an expected capital gain (and applicable capital gains tax liability) to a future financial year. By doing so, you could help reduce your personal income tax for the current financial year. This could also be of benefit if, for example, you expect that your income will be lower in future financial years compared to the current year.

iii) If appropriate, consider off-setting a crystallised capital gain with an existing capital loss (carried forward or otherwise) or bringing forward the sale of an asset currently sitting at a loss. By doing so, you could reduce your personal income tax in this financial year. Note that a capital loss can only be used to offset a capital gain.



- **Accounts Payable (Creditors)** - If you operate on an accruals basis and services have been provided to your business, ensure that you have an invoice dated June 30, 2021 or before, so you can take up the expense in your accounts for the year ended 30th June 2021.

Businesses Should Also Consider:

- **Stock Valuation Options** - Review your Stock on Hand and Work in Progress listings before June 30 to ensure that it is valued at the lower of Cost or Net Realisable Value. Any stock that is carried at a value higher than you could realise on sale (after all costs associated with the sale) should be written down to that Net Realisable Value in your stock records.
- **Compulsory Superannuation Guarantee** – as mentioned above, if you want a tax deduction in the 2020/21 financial year, the superannuation fund must receive the funds by June 30, 2021. The Tax Office doesn't consider a contribution to be made until the amount is actually credited to a super fund's bank account so an electronic transfer to another bank account on June 30 is not necessarily considered paid. We strongly recommend you make the payment a week or so before June 30 and then follow up with the super fund to ensure the funds have been received. Don't risk the tax deductibility of what can often be a significant amount by leaving the payment to the last minute.
- **Write-Off Bad Debts** – if you operate on an accruals basis of accounting (as distinct from a cash basis) you should write off bad debts from your debtors listing before June 30. A bad debt is an amount that is owed to you that you consider is uncollectable or not economically feasible to pursue collection. Unless these debts are physically recorded as a 'bad debt' in your system before June 30, 2021, a deduction will not be allowable in the current financial year.
- **Repairs and Maintenance Costs** – Where possible and cash flow permits, consider bringing these repairs forward to before June 30. If you don't understand the distinction between a repair and a capital improvement, please consult with us because some capital improvements may not be tax deductible in the current year and could be claimable over a number of years as depreciation.
- **Obsolete Plant and Equipment** should be scrapped or decommissioned prior to June 30, 2021 to enable the book value to be claimed as a tax deduction.



- **Immediate Write Off for Individual Small Business Assets & Temporary Full Expensing**

The accelerated depreciation and instant asset write-off concession for small businesses has been extended. The eligibility criteria and threshold for the instant asset write-off have changed over time. Any business with an aggregated turnover of up to \$500 million will be able to claim a tax deduction for each asset purchased and first used or installed ready for use before June 30, 2021. Qualifying assets can cost up to the \$150,000 threshold.

In addition, until 30th June 2022, **Temporary Full Expensing** means the instant asset write-off thresholds don't apply

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Year End Tax Planning (Continued)

as this allows an immediate deduction for:-

- ⇒ the business portion of the cost of new eligible depreciating assets for businesses with an aggregated turnover under \$5 billion
- ⇒ the business portion of the cost of eligible second-hand goods for businesses with an aggregated turnover under \$50 million
- ⇒ the balance of a small business pool at the end of each income year in this period for businesses with an aggregated turnover under \$10 million.



In other words, for assets you purchased and first used (or have installed ready for use) for a taxable purpose from 7.30pm (AEDT) on 6 October 2020 to 30 June 2022, the instant asset write-off threshold does not apply. You can immediately deduct the business portion of the asset's cost under temporary full expensing.

Below is a table of the instant asset write off thresholds for small businesses applying the simplified depreciation rules:

Amount (Excluding GST)	Date of Purchase	Aggregated Turnover
\$150,000	From 12 th March 2020 to 30 th June 2021 (provided asset purchased before 31 st December 2020)	Up to \$10 million
\$30,000	From 7.30pm (AEDT) on 2 April 2019 until 11 th March 2020	Up to \$10 million
\$25,000	From 29 January 2019 until 7.30pm (AEDT) on 2 April 2019	Up to \$10 million
\$20,000	From 1 st July 2016 to 28 th January 2019	Up to \$10 million

Below is a table of the instant asset write-off thresholds for businesses with an aggregated turnover of between \$10 million or more but less than \$500 million:-

Amount (Excluding GST)	Date of Purchase	Aggregated Turnover
\$150,000	From 12 th March 2020 to 30 th June 2021 (provided asset purchased before 31 st December 2020)	Up to \$500 million
\$30,000	From 7.30pm (AEDT) on 2 April 2019 until 11 th March 2020 (provided asset purchased on or after 7:30pm AEST 2 nd April 2019)	Up to \$50 million

On face value the instant asset write off is a very appealing tax concession, however, there are a number of conditions you need to satisfy. Firstly, the asset must be used in the business for income-producing purposes. The Tax Office have stated they will monitor usage to detect 'rorts' so once you lodge your tax return you might get a 'please explain' letter from the ATO asking for more details.

Here are some key points to consider:

- ◇ For the instant asset write off, the asset can be new or second hand.
- ◇ To be eligible, the asset must be purchased by a business turning over less than \$50m or \$500 million after 12th March 2020 (see above table).
- ◇ The amount must be under \$150,000 (depending on date of purchase – see table above as it could be \$30K or \$25K or \$20K) exclusive of GST (i.e. \$165,000, \$33K, \$27.5K or \$22K including GST).
- ◇ If you borrow to purchase the asset, the asset is still eligible.
- ◇ The asset must be installed and ready to use by the deadline (purchasing a car to be delivered in July 2021 won't qualify until the car is actually delivered).
- ◇ To claim the write off on a motor vehicle you will need to have a valid log book and claim only that percentage of the cost as an immediate write off.

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Year End Tax Planning (Continued)

- ◇ If you purchase a car for your business, the instant asset write-off is limited to the business portion of the car limit of \$59,136 for the 2020/21 income tax year.
- ◇ Some taxpayers may try to reduce the cost of an asset to under \$30k (for purchases prior to 12th March 2020) by using a trade-in when purchasing the asset (for example a car). However, the monetary value of the trade-in will form part of the asset cost and not reduce the cost of the asset.
- ◇ Any attempt to manipulate invoices etc. will attract the ATO's use of the anti-avoidance rules, thereby eliminating the write off.
- ◇ If your business has a small profit or even a loss, the write off will be of little or no benefit in the current year (losses are not refundable but can be carried forward to the next year).
- ◇ Building structural improvements are not eligible for the instant write off.
- ◇ If your pool balance at the end of the year is less than \$30,000 before applying any other depreciation deduction, the entire pool balance can be written off (\$150,000 if purchased post 12th March 2020 and before 31st December 2020).
- ◇ If your business is not a 'Small Business Entity' you will need to depreciate all assets purchased over \$1,000. Any assets purchased for \$1,000 or less can be written off immediately.



• Accelerated Depreciation Deductions

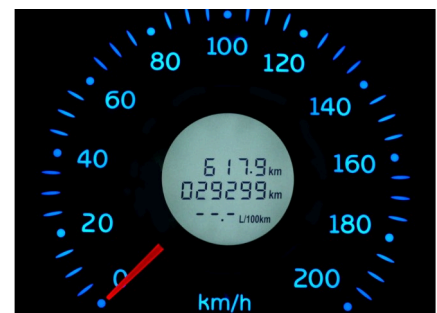
Newly acquired depreciating assets valued at more than \$30,000 (or \$150,000 post 12th March 2020) and not applied to the instant asset write off deduction can be added to the general business pool. As part of the backing business incentive, an accelerated depreciation deduction of 57.5 percent for the business portion of the new depreciating asset applies for the cost of an asset on installation from 12th March 2020 to 30th June 2021 and existing depreciation rules apply (15 per cent for the first year and 30 per cent for subsequent years) to the balance of the asset's cost and for subsequent years. There is no limit to the cost of a qualifying depreciating asset eligible for this concession, but the asset must be new and not second hand.

Checklist of Other Year End Tax Issues

In addition to the tax planning opportunities, there are a number of obligations in relation to the end of the financial year including:

If you use a Motor Vehicle in producing your income you may need to:

- Record Motor Vehicle Odometer readings at June 30, 2021
- Prepare a log book for 12 continuous weeks if your existing one is more than 5 years old. Please note, if you commence the logbook prior to June 30, 2021, the usage determined will still be appropriate for the whole of 2020/21. As such, it is not too late to start preparing one for the current financial year. (Tip – the ATO has an App that can assist with keeping records such as business use logbooks - https://www.ato.gov.au/General/Online-services/ATO-app/myDeductions/?=Redirected_URL)



If you have started an account-based pension: Ensure that you have withdrawn the annual minimum required.

If you are in business or earn your income through a Company or Trust:

- **Employer Compulsory Superannuation Obligations:**

The deadline for employers to pay Superannuation Guarantee Contributions for the 2020/21 financial year is July 28, 2021. However, if you want to claim a tax deduction in the 2020/21 financial year the super fund (or Small Business Superannuation Clearing House) must receive the contributions by June 30, 2021. You should therefore

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Year End Tax Planning (Continued)

avoid making contributions at the last minute because processing delays could deny you a significant tax deduction in this financial year.

- **For Private Company - Div 7A Loans** - Business owners who have borrowed funds from their company in prior years must ensure that the appropriate principal and interest loan repayments are made by June 30, 2021. Current year loans must be either paid back in full or have a loan agreement entered into before the due date of lodgement of the company return. Failure to comply risks having it counted as an unfranked dividend in the individual's tax return.
- Preparation of **Stock Count Working Papers** at June 30, 2021.
- Preparation and reconciliation of **Employee PAYG Payment Summaries** (formerly known as Group Certificates). Note you are not required to supply your employees with payment summaries for amounts you have reported and finalised through Single Touch Payroll.
- **Trustee Resolutions** - ensure that the Trustee Resolutions on how the income from the trust is distributed to the beneficiaries are prepared and signed before June 30, 2021 for all Discretionary (Family) Trusts. If a valid resolution hasn't been executed by this date, the default beneficiaries become entitled to the trust's income and are then subject to tax. Income derived but not distributed by the trust will mean the trust will be assessed at the highest marginal rate on this income.
- **Company Tax Rates For Small Businesses**
The company tax rate for base rate entities with less than \$50 million turnover reduced to 26% for the 2020/21 year. This rate will reduce to 25% for the 2021/22 income year. A base rate entity is a company that both:
 - * has an aggregated turnover less than the aggregated turnover threshold (\$50 million for the 2018/19 & 2019/20 income years)
 - * 80% or less of their assessable income is base rate entity passive income – this replaces the requirement to be carrying on a business.



Superannuation and Tax Planning

INCREASE IN SUPER GUARANTEE CONTRIBUTION RATE

From July 1, 2021 the compulsory Super Guarantee Contribution rate increases from 9.5% to 10%. The rate will increase again to 10.5% from July 1, 2022 and 11% from July 1, 2023.

The maximum super contribution base used to determine the maximum limit on any individual employee's earnings base for each quarter of 2020/21 is \$57,090 and for 2021/22 is \$58,920 per quarter. You do not have to provide the minimum support for the part of earnings above this limit.

CONCESSIONAL CONTRIBUTION CAP OF \$25,000 FOR EVERYONE

The tax-deductible superannuation contribution limit or cap is \$25,000 for all individuals regardless of their age and this cap increases to \$27,500 for the 2021/22 financial year.

If eligible and appropriate, consider making the most of your 2020/21 financial year annual concessional contributions cap with a concessional contribution. Note that other contributions such as employer Superannuation Guarantee Contributions (SGC) and salary sacrifice contributions will have already used up part of your concessional contributions



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Superannuation and Tax Planning (Continued)

cap. If your total superannuation balance as at June 30, 2020 was less than \$500,000 you may be in a position to carry-forward unused concessional caps starting from the 2018/19 financial year. Members can access their unused concessional contributions caps on a rolling basis for five years and amounts carried forward that have not been used after five years will expire. The 2019/20 financial year was the first year in which you could access unused concessional contributions and by making a concessional contribution to your super, you could reduce your personal income tax for this financial year and provide for your future retirement.



The Concessional Contributions Carry-Forward Provision (as an example)			
The 2020/21 Financial Year	Total super balance as at June 30, 2020	Unused cap carried forward from 2018/19 and 2019/20 financial years	The carried forward cap available at July 1, 2020
	< \$500,000	Up to \$50,000	Up to \$75,000

If eligible and appropriate, consider utilising all or part of your 2020/21 financial year annual non-concessional contributions cap by making a non-concessional contribution. If you are not currently in a non-concessional contributions bring forward period, consider whether you may be in a position to 'bring-forward' your non-concessional contributions caps for the 2021/22 and 2022/23 financial years, and contribute up to \$300,000 for the 2020/21 financial year.

The Annual Non-Concessional Contributions Cap*		
The 2020/21 financial year	Total Super Balance at 30 June 2020	The Non-Concessional Contributions Cap Amount Per Annum
	\$1.6 million +	\$0
	< \$1.6 million	\$100,000

*A non-concessional contribution generally refers to an after-tax contribution that isn't (or can't be) claimed as a tax deduction by the contributor, e.g. personal contributions not claimed as a tax deduction and spouse contributions (for the recipient).

The advantage of making the maximum tax-deductible superannuation contribution before June 30, 2021 is that superannuation contributions are taxed at between 15% and 30%, compared to personal tax rates of between 32.5% and 45% (plus 2% Medicare levy) for an individual taxpayer earning over \$45,000.

Typically, self-employed individuals and those who earn their income primarily from passive sources like investments make their super contributions close to the end of the financial year to claim a tax deduction. However, individuals who are employees may also use this strategy and those who might want to take advantage of this opportunity would typically include individuals:

- who work for an employer that doesn't permit salary sacrifice,
- who work for an employer that does enable salary sacrifice (but it's disadvantageous due to a reduction in entitlements), and
- who are salary sacrificing but want to make a top-up contribution to utilise their full concessional contributions cap.

GOVERNMENT CO-CONTRIBUTION TO YOUR SUPERANNUATION

The Government co-contribution is designed to boost the superannuation savings of low and middle-income earners who earn at least 10% of their income from employment or running a business. If your income is within the thresholds listed in the table below and you make a 'non-concessional contribution' to your superannuation, you may be eligible for a Government co-contribution of up to \$500.

Tax Year	Maximum Entitlement	Low Income Threshold	High Income Threshold
2021/22	\$500	\$41,112	\$56,112
2020/21	\$500	\$39,837	\$54,837
2019/20	\$500	\$38,564	\$53,564

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Superannuation and Tax Planning *(Continued)*

To be eligible you must be under 71 years of age as at June 30, 2021. In 2020/21, the maximum co-contribution is available if you contribute \$1,000 and earn \$39,837 or less. A lower amount may be received if you contribute less than \$1,000 and/or earn between \$39,837 and \$54,837.

The matching rate is 50% of your contribution and a additional eligibility requirements were added from 1 July 2017 which include:

- having a total superannuation balance of less than \$1.6 million on 30 June of the year before the year the contributions are being made
- having not exceeded your non-concessional contributions cap in the relevant financial year.



SALARY SACRIFICE TO SUPERANNUATION

If your marginal tax rate is 19% or more, salary sacrificing can be an effective way to boost your superannuation and also reduce your tax. By putting pre-tax salary into superannuation instead of having it taxed at your marginal tax rate you may save tax. This can be particularly beneficial for employees approaching retirement age.

SELF-MANAGED SUPERANNUATION

A Self-Managed Superannuation Fund (SMSF) can provide significant tax savings but they don't suit everyone. There are significant regulations surrounding the management and administration of SMSF's. With the end of the financial year approaching, now is a good time to discuss the pros and cons of establishing your own SMSF. It might be appropriate to establish a SMSF in conjunction with other tax planning opportunities. If you would like more information about self managed superannuation funds we invite you to consult with us today.

2021 Tax Return – Home Expense Claims

As we approach the end of the 2020/21 financial year, the Australian Tax Office has indicated that several types of costs associated with working-from-home will not be eligible as a tax deduction.

With so many people working from home through 2020 and beyond, the ATO have issued a reminder that personal and occupancy expenses cannot be claimed. Personal expenses like tea, coffee and toilet paper that are typically supplied by employers, aren't directly related to earning income and therefore cannot be claimed by taxpayers who were forced to work from home. Other ineligible expenses include those related to a child's education. These include online learning courses and laptops.



The ATO also warned that working from home doesn't make it a place of business for tax purposes. Employees generally can't claim rent, mortgage interest, property insurance or rates. The Tax Office also warns that claiming occupancy expenses could potentially expose the home to capital gains tax on sale.

Home Office Expenses

Last year the ATO announced a simplified method of calculating home office expenses and this 'shortcut' method has been extended to June 30, 2021. Taxpayers can claim a rate of 80 cents per hour to cover all their running expenses rather than calculating specific costs for running expenses. Taxpayers simply need to record the hours they worked at home on time-sheets or have diary notes. The rate of 80 cents per hour covers costs including:

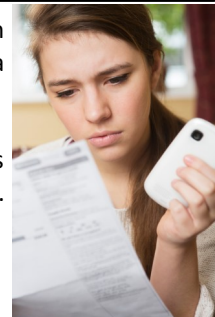
- Electricity for lighting, cooling, heating and running electronic items
- Phone and internet costs
- The decline in value of a computer, laptop, home office furniture and furnishings.

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2021 Tax Return – Home Expense Claims *(Continued)*

The shortcut is all-inclusive and can't be supplemented by additional, individual expense claims on items like phone and internet costs. Taxpayers don't need to have a dedicated work-from-home area to claim under this method and multiple people in a household can claim using the shortcut method.

The shortcut method is optional and individuals can elect to claim based on the actual expenses incurred but they would need to comply with the more complex, record-keeping requirements. Taxpayers should choose the appropriate method for their circumstances.



New Director Identification Number

ATTENTION ALL COMPANY DIRECTORS

The Government has introduced a Director Identification Number (DIN) to provide greater transparency around the background of company directors to combat illegal phoenix activity that leaves creditors unable to recover debts. The introduction is very timely given the number of financially distressed companies on the verge of insolvency due to the COVID-19 pandemic.

The Director Identification Number is designed to deter Directors from engaging in illegal phoenix activity and will help regulators detect phoenix activity. Directors need to be aware of their obligations and the penalties for such activity include large fines and up to 15 years' imprisonment.

So What Impact Will the DINs Have on Company Directors, Aside From More Form Filing?

For most directors, the impact of the new Director Identification Number will be minimal. For those who comply with Australia's corporate laws and regulations, the DIN is simply a unique identification number issued by the government that they retain for life. There's no fee and the government administers the system through the new Australian Business Registry Services (ABRS), which is consolidating ASIC's 31 business registers and the Australian Business Register.

All directors will be required to provide a number of documents to the Commonwealth Registrar to establish their identity and receive their unique DIN. This includes a driver's licence (or learner's permit), passport, birth certificate, Australian visa and Medicare card. The Registrar may also request the director's tax file number (TFN) and the Registrar can ask the ATO to provide the TFN of an individual who has applied for a director ID to verify the identity of the individual.

As the DIN system will be administered by the Commonwealth Registrar operating under a separate statutory function of the ATO, bad director behaviour should come to the attention of the ATO more often and more quickly. Any insolvency practitioner who enables directors in their phoenixing activity will also come to the ATO's attention faster.

The DINs Will Benefit Almost Everyone Involved in a Company

In addition to helping deter and identify illegal phoenix activity, and with it reduce the number of creditors left unpaid, the DINs will also benefit investors, shareholders and company directors by giving them access to better background knowledge of a director, particularly their relationships with companies past and present, and help prevent them appointing fictitious directors, i.e., those with false identities.

Directors must apply for their DIN by November 30, 2022 and penalties will apply for falsifying identity information or applying for multiple DINs. New company directors registered under the Corporations Act must apply for a DIN within 28 days of becoming a director. With the legislative changes, now more than ever, directors need to be aware of their obligations.





2021 Tax Return Client Checklist

June 2021

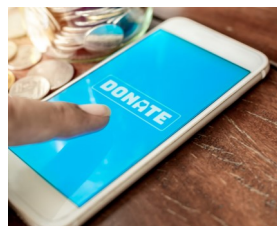
2021 - Individual Tax Returns

Income

- Gross salary, wages, allowances, benefits, earnings, tips, Directors Fees and Insurance for lost wages.
- Income from business activities.
- PAYG Payment Summaries or Income Statements from MyGov
- Details of any non-cash benefits received including discount(s) on employee shares or rights.
- Lump sum and termination payments. All documentation should be provided including an ETP Payment Summary from the employer or fund.
- Government Social Security payments, including pensions, unemployment and sickness benefits.
- Details of any CGT asset sales (e.g. shares, business and real estate). Please include dates of, and costs associated with, acquisition and disposal (You can save tax if you qualify for the variety of CGT concessions).
- Annuities, including allocated pensions or superannuation income streams.
- Income from trusts and partnerships. Statements of distribution should be provided where appropriate.
- Rental income.
- Interest and dividends received from any source including life insurance or friendly society bonuses and any tax deducted. Include details of franked dividends (i.e. imputation credits).
- Foreign source (employment and pension) income and details of any foreign tax credits, assets or property.

Deductions

- Investment and property expenses (carefully detail interest and repair claims), supply statements.
- Work-related subscriptions or memberships (not including sporting or social clubs).
- Employment related expenditure such as self-education, protective clothing, tools, union fees, uniform and laundry expenses.
- Motor vehicle expenses, car finance lease statements (include petrol, repairs, parking and maintain a Motor Vehicle Log Book where necessary).
- Donations of \$2 and over.



- Income Protection Insurance Premiums.
- For Self-Employed persons, details of any Superannuation Contributions made.
- Home office expenses where employment requires use of your computer, phone or other device.
- Tax Agent Fees and other accounting/tax audit fees.
- Special deductions (Australian films, investment shelters and agribusiness-type schemes).
- Unrecouped prior year losses.

New Clients

- Last year's Notice of Assessment and Tax Return (if available)

Rebates

- Private health insurance annual statement (request from Health Fund)
- Details of superannuation contributions where no tax deduction can be claimed.
- Any changes in dependants, children's details, DOB and any Centrelink benefits applicable (income of spouse should also be provided).
- Details of any income received in a lump sum which was accrued in earlier income years (e.g. assessable pensions).
- Details of any remote work performed for 183 days or more.
- HECS-HELP Debt details.



8 Most Common Errors in Income Tax Returns

1. Omitting Interest Income
2. Incorrect or Omitted Dividends Imputation Credits
3. Capital Gains/Losses are Incorrect or Omitted
4. Understating Income
5. Home Office Expenses
6. Depreciation on Rental Property Fixtures and Fittings
7. Depreciation on Income Producing Buildings
8. Borrowing Costs associated with Negative Gearing

2021 - Companies, Partnerships, Trusts and Other Businesses

Income

- Trading Income.
- Other Income (e.g. Rent, Interest, Royalties).
- Stock on Hand at June 30, 2021 (and basis of valuation) – note any obsolete stock.
- Work-in-Progress at June 30, 2021
- Primary Producer subsidies (if assessable).
- Details of CGT assets (e.g. shares and real estate) sold, including dates of, and costs associated with acquisition and disposal.
- Dividends, including details of franking credits.
- Income from foreign sources including details of any foreign taxes paid.

Deductions

- Repairs and maintenance.
- Salaries, including fringe benefits.
- Fringe benefits tax paid.
- Rates, land taxes and insurance premiums.
- Advertising expenses.
- Interest on borrowed monies.
- Deductions relating to foreign-source income.
- Prepaid expenses (subject to transitional rules).
- Retirement payments and golden handshakes.
- Bad debts actually written off during the year.
- Donations of \$2 and over depending on the recipient.
- Commissions.
- Legal expenses.
- Lease or Chattel Mortgage payments on motor vehicles and equipment.
- Losses of previous years (or intra-group transfers).

- Superannuation contributions.
- Subscriptions.
- Car expenses (remember to include petrol, repairs and parking and maintain a log book where necessary).
- Tax agent's fees and other accounting and tax audit fees.
- Royalties paid.
- Details of the destination and purpose of any interstate or overseas trip. Expenses must be fully documented where travel involves at least one night away from home. Travel diaries should be included where travel exceeds five nights.
- Research and development expenditure.
- Bank fees (where the credit or deposit represents assessable income).

Liabilities

- New loans taken out during the year and their purpose, including any new lease or chattel mortgage agreements on vehicles, equipment or machinery.
- Statements from the lending authority detailing the opening and closing balances of existing loans during the financial year.
- Provisions for long service and annual leave.
- Creditors at June 30, 2021.
- Details of loan accounts to directors, shareholders, beneficiaries and partners.
- Accrued expenses (e.g. audit fees, interest payments).
- Commercial debts forgiven.



Assets

- Details of depreciable assets acquired and/or disposed of during this income year, including:
 - type of asset;
 - date of acquisition;
 - consideration received/paid.
- Lease commitments.
- Debtors at June 30, 2021.
- Commercial debts forgiven.

Additional Information Required

- Franking account details/movements.
- Overseas transactions, exchange gains/losses.
- Private companies – remuneration or loans to directors, shareholders and their relatives.
- Changes to the capital of the company.
- Whether family trust elections have been made in relation to trusts.

Note: To ensure that you obtain the maximum deductions to which you are entitled and in consideration of the penalty provisions, FULL DETAILS of any claim should be provided and supporting documentation made available. For employee taxpayers and for travel and motor vehicle claims by self-employed taxpayers, documentation must be a receipt, tax invoice or similar document which contains certain details. For other taxpayers, documentation may comprise receipts, dockets, diary notations or reasonable and supporting estimates.

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