SP CONSULTING ACCOUNTANTS

PRACTICE UPDATE

JUNE 2019

Welcome to the SP Consulting Accountants newsletter.
Please read this update and contact SP Consulting Accountants if you have any queries.

Accountancy ■ Taxation ■ Business Services

Single Touch Payroll Update

Employers with 19 or fewer employees are required to start reporting through Single Touch Payroll ('STP') from 1 July 2019.

The ATO will be working with employers to support them as they transition to STP, including allowing small employers to start reporting any time from 1 July to 30 September (and the ATO will also be "generous" in granting deferrals to small employers who need more time to start STP reporting).

Note also that employers with 19 or less employees do not need to report 'closely held payees' in 2019/20 and can report closely held payees information quarterly from 1 July 2020.

Employees and payment summaries

The ATO has also reminded employees that how they get their end of financial year information from their employer, showing their earnings for the year, depends on how their employer reports their income, tax and super information to the ATO.

Specifically:

- Employers that are not yet reporting through STP will continue to provide employees with a payment summary by 14 July.
- Employers that report through STP are **no longer** required to give employees a payment summary; instead this information will be provided in an 'income statement', available via the employee's myGov account by 31 July (i.e., when the employer marks it as 'Tax Ready').

Editor: We will be able to access employee clients' payment summaries or income statement information through our connections with the ATO (this has not changed).

Please contact our office if you have any queries about STP (whether as an employer or employee).

Cryptocurrency data matching program

The ATO is collecting bulk records from Australian cryptocurrency designated service providers ('DSPs') as part of a data matching program to ensure people trading in cryptocurrency are paying the right amount of tax, and correctly meeting their tax (and superannuation) obligations.

The ATO will collect data from cryptocurrency DSPs to identify individuals or businesses who have or may be engaged in buying, selling or transferring cryptocurrency during the 2014/15 to 2019/20 financial years (the ATO estimates that there are between **500,000 to one million Australians** that have invested in crypto-assets, including SMSF trustees).

Editor: The ATO has also noted that cryptocurrency can be considered a "high risk, volatile investment", and they have already seen incidences of SMSFs losing significant amounts of their retirement savings.

They strongly recommend all trustees undertake their own investigation and appropriate due diligence before investing with any organisation investing super assets into cryptocurrency holdings.

Tax office to double audits of 'dodgy' rental deductions

Rental property owners are being warned to ensure their claims are correct this tax time, as the ATO has announced it will **double** the number of audits scrutinising rental deductions, with a specific focus on:

- over-claimed interest;
- capital works claimed as repairs;
- incorrect apportionment of expenses for holiday homes let out to others; and
- omitted income from accommodation sharing.

Assistant Commissioner Gavin Siebert said:

"A random sample of returns with rental deductions found that nine out of 10 contained an error. We are concerned about the extent of non-compliance in this area and will be looking very closely at claims this year."

"We use a range of third party information including data from financial institutions, property transactions and rental bonds from all states and territories, and online accommodation booking platforms, in combination with sophisticated analytics to scrutinise every tax return," Mr Siebert said.

"Once our auditors begin, they may search through even more data including utilities, tolls, social media and other online content to determine whether the taxpayer was entitled to claims they've made".

The number one cause of the ATO disallowing a claim is taxpayers being unable to produce receipts or other documents to support a claim.

Furnishing fraudulent or doctored records will attract higher penalties and may also result in prosecution.

The ATO has also reminded taxpayers that, since 1 July 2017, they can no longer claim travel expenses related to inspecting, maintaining or collecting rent for a residential rental property, unless they are an "excluded entity".

Paying super to backpackers

The ATO has issued the following reminders to employers, that backpackers on working holidays:

- are considered temporary residents, and are entitled to superannuation guarantee if they are paid $450 or more before tax in a calendar month; and
- who leave Australia can claim the super paid to them as a Departing Australia superannuation payment ('DASP'), providing all requirements are met.

Anyone employing backpackers should:

- check they hold a valid visa using the Visa Entitlement Verification Online ('VEVO') service;
- use the ATO's Super guarantee eligibility decision tool to determine if they are eligible for super;
- offer them a choice of super fund if requested, and follow the same steps as for any other worker before they start working for the employer; and
- advise them that they can start their DASP application using the ATO's free online application system while they are in Australia.

New rules for immediate write-offs

Small business entity ('SBE') taxpayers who choose to depreciate their assets under the simplified depreciation rules are entitled to an immediate deduction with respect to **low-cost assets** in the year they are first used or installed ready for use for a taxable purpose.

Thanks to recent changes, SBE taxpayers may be entitled to an immediate deduction in the 2019 income year for acquiring certain depreciating assets costing up to $30,000 (net of entitlement to GST input tax credits) for assets used or installed ready for use from 7:30pm AEST on 2 April 2019 until 30 June 2019.

Assets acquired prior to 2 April 2019 may also be eligible for immediate write-off, although the thresholds may be lower (e.g., the threshold is $20,000 for assets used or installed ready for use from 1 July 2018 until 28 January 2019, and $25,000 for assets used or installed ready for use from 29 January 2019 until 7:30pm AEST on 2 April 2019).

On top of this, for the first time, medium sized businesses (with an aggregated turnover of less than $50 million) may also be eligible to claim an immediate deduction for acquiring assets from 2 April 2019.

Editor: While helpful, these changes have complicated matters for the 2019 year, so please contact us if you need any help.

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2018/19 Individual Tax Return Checklist

Your Checklist

- Claims for deductions ✔
- Receipts for deductions ✔
- Car claims and log books ✔

Please review the information below and contact our office if you need assistance.

■ Accountancy ■ Taxation ■ Business Services

Tax saving strategies prior to 1 July 2019

A good strategy to reduce tax payable is normally to accelerate any income tax deductions into the current income year, which will reduce overall taxable income in the current year.

The tax rates for resident (adult) individual taxpayers for the **2018/19** income year are as follows:

Taxable Income threshold	Tax payable[1]
0 – $18,200	Nil
$18,201 – $37,000	19% of excess over $18,200
$37,001 – $90,000	$3,572 + 32.5% of excess over $37,000
$90,001 – $180,000	$20,797 + 37% of excess over $90,000
$180,001 and over	$54,097 + 45% of excess over $180,000

1. The Medicare levy of 2% generally applies in addition to these rates.

Common claims made by individuals

The following outlines common types of deductible expenses claimed by individual taxpayers, such as employees and rental property owners, plus some strategies that can be adopted to increase deductions for the 2018/19 income year.

1. Depreciable plant, etc, costing $300 or less

Salary and wage earners and rental property owners will generally be entitled to an immediate deduction if certain income-producing assets costing $300 or less are purchased before 1 July 2019.

Some purchases you may consider include:

- books and trade journals;
- briefcases/luggage or suitcases;
- calculators or electronic organisers;
- electronic tablets;
- software;
- stationery; and
- tools of trade.

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2. Clothing expenses

Purchase or pay for work-related clothing expenses prior to the end of the income year, such as:

- compulsory (or non-compulsory and registered) uniforms, and occupation specific and protective clothing;
- other expenses associated with such work-related clothing, such as dry cleaning, laundry and repair expenses.

3. Self education expenses

Consider prepaying the following self education items before the end of the income year:

- course fees (but not HECS-HELP fees), student union fees, and tutorial fees; and
- interest on borrowings used to pay for any deductible self education expenses.

Also bring forward purchases of stationery and text books (i.e., those which are not required to be depreciated).

4. Other work-related expenses

Employees can prepay any of the following expenses prior to 1 July 2019:

- union fees;
- subscriptions to trade, professional or business associations;
- magazine and professional journal subscriptions;
- seminars and conferences; and
- income protection insurance (excluding death and total/permanent disability).

Note: When prepaying any of the expenses above before 1 July 2019, ensure that any services being paid for are to be provided within a 12 month period that ends before 1 July 2020. Otherwise, the deductions must generally be claimed proportionately over the period of the prepayment.

Information Required

We will need you to bring information to assist us in preparing your income tax return.

Please check the following and bring along any relevant statements, accounts, receipts, etc., to help us prepare your return.

Income/Receipts:

- payment summaries for salary and wages (if provided by your employer(s));
- lump sum and termination payments;
- government pensions and allowances;
- other pensions and/or annuities;
- allowances (e.g., entertainment, car, tools);
- interest, rent and dividends;
- distributions from partnerships or trusts; and
- details of any assets sold that were either used for income-earning purposes or which may be liable for capital gains tax ('CGT').

Expenses/Deductions (in addition to those mentioned in Income/Receipts):

- award transport allowance claims;
- bank charges on income-earning accounts (e.g., term deposits);
- bridge/road tolls (travelling on business);
- car parking (when travelling on business);
- conventions, conferences and seminars;
- depreciation of library, tools, business equipment (incl. portion of home computer);
- gifts or donations;
- home office running expenses:
  - cleaning
  - cooling and heating
  - depreciation of office furniture
  - lighting
  - telephone and internet;
- interest and dividend deductions:
  - account keeping fees
  - ongoing management fees
  - interest on borrowings to acquire shares
  - advice relating to changing investments (but not setting them up);
- interest on loans to purchase equipment or income-earning investments;
- motor vehicle expenses (business/work related);
- overtime meal expenses;
- rental property expenses – including:
  - advertising expenses
  - council/water rates
  - insurance
  - interest
  - land tax
  - legal expenses/management fees
  - genuine repairs and maintenance
  - telephone expenses
- superannuation contributions;
- sun protection items;
- tax agent fees;
- telephone expenses (business); and
- tools of trade.

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2018/19 Year-end Checklist for Business

Accountancy ■ Taxation ■ Business Services

Many of our business clients like to review their tax position at the end of the income year and evaluate any year-end strategies that may be available to legitimately reduce their tax. Traditionally, year-end tax planning for small businesses is based around two simple concepts – i.e., accelerating business deductions and deferring income.

However, Small Business Entities ('SBEs') have greater access to year-end tax planning due to particular concessions that only apply to them (the SBE system replaced the previous Simplified Tax System ('STS') on 1 July 2007). Taxpayers that qualify as an SBE can generally pick and choose which of the concessions they wish to use each year (although see below regarding the simplified depreciation rules). The basic requirement to be eligible for most of the SBE concessions for the year ending 30 June 2019 is that the business taxpayer's annual turnover (including that of some related entities) is less than $10 million.

The following are a number of areas that may be considered for all business taxpayers.

Maximising deductions for non-SBE taxpayers

Non-SBE business taxpayers should endeavour to maximise deductions by adopting one or more of the following strategies:

- Prepayment strategies;
- Accelerating expenditure; and
- Accrued expenditure.

Prepayment strategies – non-SBE

Any part of an expense prepayment relating to the period up to 30 June is generally deductible.

In addition, non-SBE taxpayers may generally claim the following prepayments in full:

- expenditure under $1,000;
- expenditure made under a 'contract of service' (e.g., salary and wages); or
- expenditure required to be incurred under law.

Note: Prepayments can be a little confusing, so before you commit to making a payment please feel free to call us with any queries or assistance if required.

Accelerating expenditure – non-SBE

This is where a business taxpayer brings forward expenditure on regular, on-going deductible items. Business taxpayers are generally entitled to deductions on an 'incurred basis'. Therefore, there is generally no requirement for the expense to be paid by 30 June 2019 (i.e., as long as the expense has genuinely been 'incurred', it will generally be deductible).

- **Depreciating assets** – Non-SBEs with annual turnover (including that of some related entities) of less than $50 million can claim an immediate deduction for assets costing less than $30,000, for assets acquired and first used (or installed ready for use) between 7:30pm (AEST) 2 April 2019 and 30 June 2019.

  Depreciating assets costing $100 or less can be written off in the year of purchase.

  Depreciating assets costing less than $1,000 can be allocated to a low value pool and depreciated at 18.75% (which is half of the full rate of 37.5%) in their first year, regardless of the date of purchase.
- **Repairs** – repairs to office premises, equipment, cars or other business items.
- **Consumables/spare parts**.
- **Client gifts.**

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- **Donations.**
- **Advertising.**
- **Fringe benefits** – any benefits to be provided, such as property benefits, could be purchased and provided prior to 1 July 2019.
- **Superannuation** – contributions to a complying superannuation fund, to the extent contributions are actually made (i.e., they cannot be accrued but must be paid by 30 June).

Accrued expenditure

Non-SBE taxpayers (and many SBE taxpayers – refer below) are entitled to a deduction for expenses incurred as at 30 June 2019, even if they have not yet been paid.

The following expenses may be accrued:

- **Salary or wages and bonuses** – the accrued expense for the days that employees have worked but have not been paid as at 30 June 2019.
- **Interest** – any accrued interest outstanding on a business loan that has not been paid as at 30 June 2019.
- **Commissions** – where employees or other external parties are owed commission payments.
- **Fringe benefits tax ('FBT')** – if an FBT instalment is due for the June 2019 quarter, for example, but not payable until July, it can be accrued and claimed as a tax deduction in the 2019 income year.
- **Directors' fees** – where a company is definitively committed to the payment of a director's fee as at 30 June 2019, it can be claimed as a tax deduction.

Maximising deductions for SBE taxpayers

Deductions can be maximised for SBE business taxpayers by **accelerating expenditure** and **prepaying** deductible business expenses. Former STS taxpayers who have continued to use the STS cash method since before 1 July 2005 cannot accrue expenses, but other SBE taxpayers can **accrue expenses** (see above regarding accruing expenditure).

Accelerating expenditure – SBE

In addition to accelerating other expenditure items, SBE taxpayers can choose to write-off depreciating assets costing less than $30,000 in the year of purchase*. Also, assets costing more than the relevant immediate asset write-off threshold are allocated to an SBE general pool and depreciated at 15% (which is half the full rate of 30%) in their first year. Therefore, where appropriate, SBE business taxpayers should consider purchasing/installing these items by 30 June 2019.

It should be noted that SBE taxpayers choosing to use the SBE depreciation rules are effectively 'locked in' to using those rules for all of their depreciating assets.

(*) The immediate asset write-off threshold has been increased to 'less than $30,000', for assets first used or installed ready for use between 7:30 pm (AEST) 2 April 2019 and 30 June 2019.

The threshold is $20,000 for assets first used or installed ready for use from 1 July 2018 until 28 January 2019, and $25,000 for assets first used or installed ready for use from 29 January 2019 until 7:30pm AEST on 2 April 2019.

Prepayment strategies – SBE

SBE taxpayers making prepayments before 1 July 2019 can choose to claim a full deduction in the year of payment where they cover a period of no more than 12 months (ending before 1 July 2020). Otherwise, the prepayment rules are the same as for non-SBE taxpayers.

The kinds of expenses that may be prepaid include:

- Rent on business premises or equipment.
- Lease payments on business items such as cars and office equipment.
- Interest – check with your financier to determine if it's possible to prepay up to 12 months interest in advance.
- Business trips.
- Training courses that run on or after 1 July 2019.
- Business subscriptions.
- Cleaning.

Information Required

This is some of the information we will need you to bring to help us prepare your income tax return:

- Stocktake details as at 30 June.
- Debtors listing (including a list of bad debts written off) as at 30 June. ***Note: In order to claim a deduction, the debt must be written off on or before 30 June.***
- Creditors listing as at 30 June