

Welcome to our 2020 edition of Tax Time!

Well what a year! We hope this newsletter finds all of our clients and friends safe and healthy, and we look forward to catching up with you during 2020/21.

Also available on our website are some frequently used tax rates and tables to assist you with your tax planning. We also include a summary of items affecting us in the 2019/20 financial year and some bits and pieces for the 2020/21 year and beyond.

Due to the COVID-19 Pandemic the Government postponed the 2020/21 Budget until 6 October 2020 so most changes resulting from the Federal budget will not be in this year's Tax Time. Also with the disruption to Parliament some budget measures from last year remain to be passed through parliament.

In line with social distancing measures we will be endeavouring to complete Individual Income Tax Returns by phone appointment where possible. What this means is that prior to your booked appointment we intend to:

- Email you either a copy of the Prefil Report from the Tax Office and/ or a Summary of your 2018/19 Income Tax Return.
- We will then ask you to email us your relevant details for 2019/20 Tax Year.
- We will prepare your returns and then confirm details with you over the phone at your scheduled appointment time.

We trust this will be suitable to you however if this not convenient we will arrange another method of processing your return that will achieve the desired result.

### Things to consider for 2019/20

- The Tax Office is continuing to focus on employees work related deductions. They have issued a new tax ruling TR 2020/1 "Income tax: employees: deductions for work related expenses". The ruling reiterates when an expense is tax deductible and offers an extensive list of further references. You could be excused for thinking this has come out to ensure there are no excuses for getting it wrong. One of the main messages from the ruling is regardless of substantiation concessions for some tax deductions, proof of expenditure is still required.
- As some of you may have already experienced the Tax Office is continuing to utilise technology to help with data matching using a process they call "Income Tax Return Profile Compare". They are comparing individual job codes/ descriptions and work related expenses within their data base, preparing a profile of expected claims for a profession/ occupation and reviewing individuals that they believe are outside the normal profile. Tax agents will now need to provide more description for work related claims when preparing tax returns to ensure their work papers can support a client's claim.
- The Tax Office is looking for evidence when claiming work related deductions for the following:
  - Use of internet.
  - Mobile phone
  - Home office running expenses

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- business start-up
- analysis
- budgets and cash flow
- special projects
- strategic planning

#### advisers on

- company
- partnership
- trust
- sole trader
- rental property

#### taxation

- income tax
- fbt
- gst
- tax planning
- capital gains tax

#### accounting

- statutory
- management

#### self managed superannuation funds

- set-up
- accounting
- auditing
- tax & compliance advice

#### business appraisal

- business valuations
- new business evaluations
- negative gearing
- business finance

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The Tax Office is looking for some evidence as to how the work related portions were arrived at. The Tax Office has suggested keeping a log of relevant use for a period of 1 month. Based on the 1 month sample this can be used to determine the appropriate work related proportion. We have prepared a few template logs which we are happy to forward to you, just go to our website or contact our office.

- Similarly the Tax Office is focussing on Motor Vehicle expense claims. You will need a valid logbook to support any claims if you are not using the cents per kilometre method. Within the log book the Tax Office is not satisfied with descriptions such as “reason for journey – work”. The reason for journey must be more specific e.g. the customer’s name or the name of the institution. The Tax Office will be looking to see if the taxpayer has odometer readings at the start and end of each year.
- When claiming the cents per kilometre method the Tax Office may request evidence as to how the number of kilometres was calculated. The cents per kilometre rate for MV claims remains at \$0.68 per kilometre. Maximum kilometres is still 5,000Km. Again check out our website under Motor Vehicle Checklist for further details.
- **REMEMBER:** Motor vehicles that are **not cars**, e.g. Utilities with a carry capacity of more than 1 tonne, are not able to use the cents per kilometre method. Logbooks are not required however **it is the only practical way** to support the work related percentage. Claims for fuel costs **MUST** be supported by receipts. Estimates are **NOT** allowable.
- The Home Office rate has been varied due to Covid-19 and the requirement for many employees to work from home. There are three methods:
  - Short cut (\$0.80/hour). Only from 1 March 2020 to 30 June 2020 and includes phones, internet, computer consumables and decline in value of computer/ laptop.
  - Fixed rate (\$0.52/hour). Can apply all year and DOES NOT include phones, internet, computer consumables and decline in value of computer/ laptop. These can be claimed using your own method for calculating work related portion and receipts.
  - Actual cost method. This requires you to work out your own apportionment method for all relevant home office running expenses and receipts.
- The Low Income Tax Offset remains at a maximum of \$445. The Low and Middle Income Tax Offset (LAMITO) also remains at a maximum of \$1,080. When combined with the tax-free threshold of \$18,200 effectively means those eligible for both tax offsets will not pay tax until their taxable income exceeds \$21,884.
- Senior Australians eligible for the Senior Australian & Pensioners Tax Offset (SAPTO) will **not pay tax** on “rebate income” up to **\$32,279** for singles and **\$28,974** each, for couples living together because of the combined effect of the Senior Australians Tax Offset, the Low Income Tax Offset and the Low and Middle Income Tax Offset. (The max offset for 2019/20 remains at \$2,230 for singles or \$1,602 for each couple).
- Invalid and Invalid Carer Tax offset is available for taxpayers who maintain:
  - a spouse who is an invalid or who cares for an invalid
  - your or your spouse’s parent, who lives in Australia
  - Your or your spouse’s invalid child, brother or sister aged over 16

The maximum rebate for 2020 is \$2,766 (**Note: Other conditions apply and a means test for the taxpayer claiming is \$100,000 Adjusted taxable income**).

- **Small business concessions:** The instant asset write-off threshold for assets costing less than \$30,000 was increased to \$150,000 on 12 March 2020. The \$150,000 threshold will remain until 31 December 2020.
- **Business: Effective 1 July 2019**, no longer able to claim a tax deduction for the following payments:
  - Payments for wages or directors fees where no PAYG tax has been withheld when it should have been
  - Payments to contractors who did not provide an ABN and the payer did not withhold any PAYG when they should have.
- **Business: Covid-19:**
  - JobKeeper is assessable income (but GST free).
  - Cash Boost is **NOT** assessable income (and is GST free).
  - If rental income is reduced due to Covid-19, expenses will still be fully deductible.
  - Accessing super up to \$10,000 in 2020 and again in 2021 under Covid-19 compassionate grounds is tax free.

- Minimum annual pension payments from superannuation for those in retirement have been cut by 50% for 2020 and 2021 income years.
- **Rental properties:** A reminder for Depreciation on plant and equipment (e.g. Dishwashers, Air conditioners, Carpets, Hot water systems etc.). Depreciation will be limited to the taxpayer(s) who actually bought the equipment new. Subsequent owners of the property **will NOT** be able to continue to claim depreciation on the existing plant & equipment. They **will be** able to claim depreciation on any **NEW** plant & equipment they buy, but **NOT** second hand equipment they buy. Properties owned prior to 9 May 2017 will not be affected unless the property was owned before 9 May 2017 but not used as a rental property any time before or during 2017.



- To substantiate your expenses, you must retain all your receipts for five years from date of lodgement.
- Adding and summarising your income and expenses before your appointment will help us tremendously and save you time during our interview.

### **New for 2020/21 and beyond (SOME CHANGES ARE SUBJECT TO PASSING OF LEGISLATION)**

- **Small business concessions:** Company income tax rate will be 26% starting 1 July 2020 (down from 27.5%).
- **Small business concessions:** The small business income tax offset for sole traders is expected to increase to 13% (up from 8%) in the 2020/21.
- **Income tax:** Personal income tax cuts are in place to commence 1 July 2022 with increases in the 19% and 32.5% tax brackets. From 1 July 2024 further changes will see the 32.5% bracket dropped to 30% and the 37% bracket removed as well as the top marginal tax bracket increased to \$200,000.
- **Superannuation:** If your total superannuation balance is less than \$500,000 you will be able to carry forward any unused concessional contributions cap of \$25,000 into the next year for up to 5 years.
- **Superannuation:** There will be a work test exemption for voluntary contributions by individuals aged 65-74 if you:
  - Satisfied the work test in the financial year preceding the year in which you made the contribution
  - Have a superannuation balance below \$300,000 at the end of the previous financial year
  - Have not previously utilised this exemption.
- **Superannuation:** The work for non-concessional contributions has been extended to age 67 (from age 65). This means you can continue to make non-concessional contributions (provided your total super balance is under \$1.6Mil) up to age 67 without needing to satisfy the work test.
- **Superannuation:** The “bring forward rule” allowing non-concessional contributions up to \$300,000 before reaching age 65 (now age 67) has **not yet been passed by parliament**.
- **Business: Single Touch Payroll (STP)** for businesses that are “closely held entities” e.g. where the owner is the only employee, was to become mandatory from 1 July 2020 but has now been extended to 1 July 2021.

**Phone our office for an appointment today! (02) 4751 4091**

**Trading Hours for July to 30 September 2020**

**\*Note: Availability after 5pm by appointment only**

**\*\* Saturday appointments available August. September TBA.**

Monday	Tuesday	Wednesday	Thursday	Friday	Every 2 <sup>nd</sup> Saturday**
9.00am – 7.30pm*	9.00 am – 7.00pm*	9.00am – 5.00pm	9.00am – 7.30pm*	9.00am – 3.00pm	9.30am – 2.30pm*
<b>After 30 September 2020</b>		Monday to Thursday	9.00am to 5:00pm	Friday	9.00am to 3.00pm