

TAX MATTERS

TAX STRATEGIES FOR YOU AND YOUR BUSINESS

BUDGET
EDITION
2022

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practiceadvantage

Budget Aims To Help Ease The Costs Of Living

As promised in the days leading up to the Budget the Government has provided some key initiatives aimed at softening the recent increases in the cost of living.

One-Off Cost Of Living Tax Offset

The Government has announced a one-off increase to the low and middle-income tax offset (LMITO) to raise it from \$1,080 to \$1,500 for the 2021-22 financial year. An increase of \$420.

This payment is claimed in your income tax return if you are eligible for the payment. You need to check the table below to see how much payment you are entitled to.

Currently, the Low and Middle Income Tax Offset is available to eligible individuals who are earning less than \$126,000, with different tax brackets incurring different offset rates.

Taxable Income	Tax Relief (including LMITO)
Up To \$37,000	Up to \$675
\$37,001 to \$48,000	\$675 to \$1,500
\$48,001 to \$90,000	\$1,500
\$90,001 to \$125,999	\$420 to \$1,500

One-Off Income Support Payment For Individuals

The Government will provide a one-off, income tax-exempt payment of \$250 to approximately 6 million eligible people.

This payment will be paid automatically to all eligible pensioners, welfare recipients, veterans and eligible concession card holders in April 2022. This could result in eligible individuals earning more than \$500 when combined with other existing indexation agreements on other support payments (such as the Age Pensions, Disability Support Pension and Carer Payment).

More Affordable Child Care Continues

The Government is committing \$279 million in COVID-19 support, \$6.9 million in business continuity payments and support for services through Special Circumstances Grants in the Community Childcare Fund. As yet it is unclear as to the impact this will have on individual households.

Fuel Excise Cut In Half

Among the Federal Government's announcements was the temporary action to cut fuel excise (the tax paid on fuel) to reduce this pressure on household budgets.

The fuel excise will be reduced by 50 per cent for 6 months, dropping the current excise on petrol and diesel from 44.2 cents per litre to 22.1 cents per litre. This should lead to an equivalent drop in the price of fuel.

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COVID-19 RATS Tests Tax Deductibility

Rapid Antigen Tests (RATs) have become a product common in homes and workplaces around the country, employed to limit the potential spread of COVID-19.

The expense of these single-use tests however made their purchase costly to employees and employers who were required to prove that they were fit to work.

However, in February 2022, the Federal Government announced that RATs used for COVID-19 testing will be tax-deductible, but only if they were used to test before attending a place of work.

These will also be exempt from fringe benefits tax (FBT) for businesses if they have been purchased for work-related purposes.

This means that for every COVID-19 test you pay or paid for in order to do your job or run your business, some of that cost will be returned to you at tax time (if you keep a record of the purchase of the test).



There's a lot of information circulating around about how the tax deduction is set to work. Here's what has been clarified so far that you can take with you into your 2021/2022 tax returns:

- Any test that has been bought in the 2021/2022 financial year can be claimed IF there is a record of the purchase.
- The FBT liability of a business would be decreased by \$20 for a dual-pack of RATs, while a person on more than \$45,000 (at a tax rate of 32.5%) would receive around \$6.50 back in tax for a two-pack of RATs that's worth around \$20.
- This legislation will be in effect from the 2021/2022 FBT and income years and will be backdated to July

1 2021.

- » This means that any test that was purchased after July 1 will be covered, but not tests that were bought before that day (even if the purchased test was taken in July).

In the interim, if you have incurred expenses for COVID-19 tests, you should keep a record of those expenses. Much like you would for any tax-deductible expense, receipts of any purchase of RATs need to be kept and noted.

It needs to be noted that RAT tests are only able to be claimed presently if they were bought for work-related purposes. If the tests were purchased for personal use, they are not currently able to be claimed on your tax return.

Does Purchasing A Ute Result In A Tax Deduction?

When it comes to big tax topics that are often brought up in discussion with us, cars and their place in businesses are a common occurrence. It's often talked about with regard to tradesmen, due to their vehicle being their primary transportation for work.

People want to drive a nice car, and being able to receive a tax deduction on its running costs can make it cheaper. Especially when it's all done through your business.

The government is aware of this and as a result, the rules around tax relating to business vehicles are often adjusted - and not always in ways that benefit you.

A luxury car could once be bought in the name of your company, and have the depreciation and running costs claimed as a tax deduction even if it was completely for personal use. However, those companies also paid 49% tax (and there were no franking credits back then).

Over the years, the rules and regulations have changed. If your car is primarily for private use, you cannot claim a tax deduction for that part of the use of the vehicle (unless it falls under certain circumstances). If the vehicle is in the name of the company and provided as a fringe benefit, fringe benefits tax will apply.

There is also a cost limit to buying a car*. This is the maximum amount that you can spend and claim a tax deduction for the depreciation or the instant asset write off. For cars, this is currently set at around \$60,733

***Note:** It is only cars that are subject to this limit. There are some vehicles that are used similarly to a car but under the Tax Act's definition, are not a car. These vehicles are not restricted to a cost limit to be able to write off the purchase price through either the instant asset write off or through depreciation. These vehicles are not subject to the same FBT rules as a car but are still subject to a similar amount of FBT.

Many may assume that the purchase of a ute instantly categorises it as a commercial vehicle, which means that a tax deduction can be claimed for the entire running costs with no fringe benefits tax. **This is not the case.**

If you are in a profession such as a solicitor, buy a ute and have your logo placed onto it but only drive it to and from work (and perhaps to the hardware store on the weekend), this is not a vehicle purchased for commercial purposes. The tax impact of buying this ute is no different to purchasing a sedan or a 4WD for the same value.

There is no automatic tax deduction and nil FBT just because the car is a ute.

This is because the primary usage of the ute is carrying passengers (private use).

The solicitor does not automatically get a tax deduction with no FBT just because it is a ute.

Claiming the full cost of a ute without worrying about FBT requires the use of the vehicle to be for business purposes.

As an example, if you are an electrician driving the ute for your business, with minor and infrequent personal use of it (such as going to the shops on the weekend), this can be claimable.

If you're looking at buying a new vehicle, it is important to model the different ownership options available. However, unless your vehicle is 100% business use, there is no one-size-fits-all answer to the query of whether purchasing a ute will automatically lead to a tax deduction.



ATO Attack On Family Trust Distributions

The Australian Taxation Office released in February an array of documentation relating to family trust distributions - technical documents that may not be fully understood by those uninvolved or unqualified to handle tax matters. However, they may impact you if you are a taxpayer who uses family trusts.

The ATO is attacking distributions from trusts where the tax is paid by one individual (who is usually a low-income earner), but the economic benefit of the distribution is obtained by someone else (who is usually a higher income earner).



As an example, there is a trust that benefits the Smith family, consisting of two parents and two children (who are at university and are not earning money). The Smith Family Trust decides to distribute a significant portion of the money to the two university-attending children. However, the catch is that the parents do not want the children to have control of the significant amounts of money, and decide they wish to keep the benefits of the lower tax thresholds of the low-income earners.

This is an arrangement that the ATO has deemed in the public advice guidance and draft rulings as needing to be addressed and changed.

However, the rulings on income distributions from family trusts are currently in draft form, which the ATO has asked for feedback on before finalising the rulings. This may not happen before trust resolutions need to be completed this June, so it is possible that those may need to be addressed under the draft rulings.

It is not expected that these new rulings will impact many of our clients. If you may be impacted, you will be contacted and this issue will be resolved to avoid ATO scrutiny on your trust and its distributions. This action may even warrant a whole structure review of your current trust setup.



New Client Identity Verification Guidelines To Minimise Risk Of Tax Fraud

New guidelines have been developed by the Australian Taxation Office and the Tax Practitioners Board to assist with verifying your identity, in a bid to reduce the impersonation of taxpayers by criminals committing tax fraud.

Regardless of whether or not you are an individual, small business or a large company, having someone impersonate you to commit tax fraud can have significant and severe financial consequences.

The Tax Practitioners Board has outlined three main scenarios in which tax practitioners will require you to prove your identity, as well as the specific information and evidence you will need to provide.

These include:

YOU ARE LOOKING TO ENGAGE THE REGISTERED TAX PRACTITIONER FOR YOUR OWN MATTER.

- Information required:
 - » Full name and residential address and/or date of birth
- Evidence required:
 - » Primary photographic identification document (ie. license, photo id), or
 - ◇ both an original or certified copy of a primary non-photographic identification document;
 - ◇ and an original or certified copy of a secondary identification document.

YOU ARE A REPRESENTATIVE LOOKING TO ENGAGE THE REGISTERED TAX PRACTITIONER ON BEHALF OF ANOTHER INDIVIDUAL.

- Information Required:
 - » Both the individual representative (you) and individual client's full names and either:
 - ◇ residential addresses; or
 - ◇ dates of birth; and
 - ◇ authority of the individual representative to engage the registered tax practitioner on behalf of the individual client.
- Evidence Required:
 - » For both you as the individual's representative and the individual client, an original or certified copy of a primary photographic identification document is needed or both of the following:
 - ◇ an original or certified copy of a primary non-photographic identification document; and an original or certified copy of a secondary identification document; and
 - ◇ a legal document that demonstrates your authority as the representative to engage the registered tax practitioner

on behalf of the individual client, including in relation to parental, guardianship or power of attorney representation.

YOU ARE A REPRESENTATIVE LOOKING TO ENGAGE THE REGISTERED TAX PRACTITIONER ON BEHALF OF A NON-INDIVIDUAL.

- Information Required:
 - » Your (the individual representative) full name and
 - ◇ Residential address or
 - ◇ Date of birth
 - » The non-individual client's full name and either
 - ◇ Australian Business Number (ABN);
 - ◇ Australian Company Number (ACN)
 - ◇ any other additional detail in order to make a reasonable assessment of the legitimacy of the non-individual's identity; and
 - » authority of the individual representative to engage the registered tax practitioner on behalf of the non-individual client.
- Evidence Required:
 - » For you as the individual representative, an original or certified copy of a primary photographic identification document, or both of the following:
 - ◇ an original or certified copy of a primary non-photographic identification document; and
 - ◇ an original or certified copy of a secondary identification document.
 - For the non-individual client, documentation or data that verifies the existence of the non-individual client; and
 - » a legal document demonstrating the authority of the individual representative to engage the registered tax practitioner on behalf of the non-individual client.

These new guidelines for identity verification are preventative measures, but may not necessarily aid you in the event that the fraud has already been committed.

Not only is your data and confidential information at risk, so too is your financial situation. Tax Practitioners like us have a specific role to play and these new guidelines will further help us to meet our obligations to secure the personal and financial details of our clients. If you believe that you may have been the subject of tax fraud, it is important that you contact us as soon as possible.

Reduction In Minimum Pension Drawdown Announced

The reduction in the minimum pension drawdown amount for superannuation pension recipients has been extended for another year by the Federal Government, as announced in the Budget for 2022-23.

The minimum pension amount will be only 50% of the general amount (the balance from which the pension is drawn). For example, a 65-year old would usually need to draw down 5% of their opening balance as a pension payment throughout the year.

For the 2022-23 financial year, the minimum amount will be reduced 50% (dropping this to 2.5%). This measure is set to cost the Federal Government around \$19.2 million dollars for the 2022-23 years, but you need to be alert and conscientious about this measure.

Whilst it is a great outcome to keep as much of your money in your super as is possible (if it's not required for you to live on), you do need to be conscious that at some point, the remaining balance will be passed onto the next generation. When this money does change hands and is given to the next generation if the superannuation balance includes a taxable component, then your children may be subject to as much as 17% tax on the capital value of that balance.

However, if you take that money out of your super and it passes to your children as a part of your estate instead, there will be no death duties payable.

The primary reason for the reduction in the minimum pension payment amount is to protect pensioners from having to sell their assets during a volatile period. However, this is a double-edged sword that needs to be carefully considered and weighed against your circumstances.



Smarter Reporting Of Taxable Payments Reporting System Data

As a part of the Budget Announcements, the Government has issued a statement that it will work with accounting software providers to see if they have the capacity to deliver specific reporting systems by 31 December 2023. This should allow taxpayers to report Taxable Payments Reporting Payments System data on the same lodgement cycle as their activity statements.

This may sound complicated, and you may be unsure of what that could mean to you as a small business taxpayer.

Here's a brief explanation about why this should interest you:

Certain industries such as building & construction, couriers, IT and security (amongst others) that regularly engage permanent contractors have to report payments to those contractors on an annual basis (known as a TPAR). This is similar to reporting payments to employees.

Effectively, this is an extra process for payers to these

contractors. It is hoped that by the end of next year, this reporting will be all able to be wrapped up in your Business Activity Statement (BAS), saving your small business a lot of time and a lot of red tape.



Primary Producers – Increasing Concessional Tax Treatment For Carbon Abatement & Biodiversity Stewardship Income

The Government will allow the proceeds from the sale of Australian Carbon Credit Units (ACCUs) and biodiversity certificates generated from on-farm activities to be treated as primary production income for the purposes of the Farm Management Deposits (FMD) scheme and tax averaging from 1 July 2022. This is an important step for primary producers.



The Government will also change the taxing point of ACCUs for eligible primary producers to the year when they are sold, and extend similar treatment to biodiversity certificates issued under the Agriculture Biodiversity Stewardship Market scheme, from 1 July 2022. Eligible primary producers are those who are currently eligible for the FMD scheme and tax averaging.

Currently, proceeds from selling ACCUs are treated as non-primary production income and are generally ineligible for concessional tax treatment under the FMD scheme or tax averaging. ACCU holders are taxed based on changes in the value of their ACCUs each year, which can result in tax liabilities prior to sale.

Small Business – Technology Investment Boost

The Government is introducing a technology investment boost to support digital adoption by small businesses. The boost will apply to eligible expenditures incurred from 7:30pm (AEDT) on 29 March 2022 until 30 June 2023.

Small businesses (with an aggregated annual turnover of less than \$50 million) will be able to deduct an additional 20 per cent of the cost incurred on business expenses and depreciating assets that support their digital adoption, such as portable payment devices, cyber security systems or subscriptions to cloud-based services.

An annual cap will apply in each qualifying income year so that expenditures up to \$100,000 will be eligible for the boost.

The boost for eligible expenditure incurred by 30 June 2022 will be claimed in tax returns for the following income year. The boost for eligible expenditure incurred between 1 July 2022 and 30 June 2023 will be included in the income year in which the expenditure is incurred.



Skills & Training Boost

The Government is introducing a skill and training boost to support small businesses to train and upskill their employees. The boost will apply to eligible expenditures incurred from 7:30pm (AEDT) on 29 March 2022 until 30 June 2024.

Small businesses (with an aggregated annual turnover of less than \$50 million) will be able to deduct an additional 20 per cent of expenditure incurred on external training courses provided to their employees. The external training courses will need to be provided to employees in Australia or online, and delivered by entities registered in Australia.

Some exclusions will apply, such as for in-house or on-the-job training and expenditure on external training courses for persons other than employees.

The boost for eligible expenditure incurred by 30 June 2022 can be claimed in tax returns for the following income year. The boost for eligible expenditure incurred

between 1 July 2022 and 30 June 2024, can be included in the income year in which the expenditure is incurred.

