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THE PRACTITIONER

Tax News and Commentary for you and your business

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Business Advisory | SMSF Administration | Accounting & Taxation | Taxation Planning | Estate Planning

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WELCOME TO THE LATEST EDITION OF THE PRACTITIONER

By Andrew Goldman

Football, Formula 1 Grand Prix and Easter. I'm sure we've all been busy enjoying these things in varying degrees but new developments in business, tax and superannuation wait for no man.

In this edition of The Practitioner we detail some issues which are important not only now but will remain so into the future as we approach the end of another financial year.

TEAM MEMBER PROFILE: Q&A WITH ANDREW GOLDMAN

By Ivan Yeung

Andrew joined GFM Gruchy in October 2015 upon the retirement of Alistair Thompson and is our Managing Partner. He holds a Bachelor of Business degree from Monash University, is a decades long member of CPA Australia, a registered tax agent with the Tax Practitioners Board and holds a CPA Australia Public Practice Certificate.

Pictured here alongside his Subaru WRX racing car at Winton Motor Raceway, Andrew and I had a quick Q & A session recently and below you can learn a few things about Andrew.

Q: What can you share with us about your family?

A: My wife Danielle works for Lend Lease Retirement Living as a Village Administrator and I'm the proud father of four wonderful children, two boys and two girls ranging in age from 20 to 29.

Q: What do you like the most about working at GFM Gruchy?

A: It's a cliché, but working together with our team and our clients is very enjoyable. We have a very close-knit team at GFM Gruchy and it's satisfying to see everyone working together to provide the best possible service to our clients.

Q: What do you like to do when you are not working?

A: Racing cars – this is my passion and has been since I was a little boy. Although I've only been racing since 2018, in 2022 I was fortunate enough to win a state championship in the car. I also enjoy horse racing and caravanning.

Q: What are some things you couldn't live without?

A: Family, friends and good conversation.

Q: If you could meet anyone in the world, past or present, who would it be and why?

A: It's a really hard question, this one. I would love to have more time with my father who passed away in 2015 and to also sit down with my four grandparents for a chat. Away from family I'd like to share an evening with Frank Sinatra and Dean Martin!

Q: What is your favourite book, movie or TV show?

A: Favourite books are 'Give A Man A Horse' – biography of Sir Patrick Hogan and 'The Rise and Rise of Kerry Packer' – biography of Kerry Packer, movie would be 'Sea Biscuit' and TV show has to be 'Hogan's Heroes' from when I was a kid.

Q: What's something about you that people may not know?

A: I do most of the cooking at home. It helps me clear my mind at the end of the day and my wife has absolutely no complaints about me taking on that role!

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NEW WORK FROM HOME RECORD KEEPING REQUIREMENTS

By Andrew Goldman

Are you one of the five million Australians who claim work from home deductions? If so, stricter record-keeping rules may now apply.

For this financial year and moving forward, there are now only two methods to calculate your work from home claim:

1. Revised fixed rate method (with new rules applying)
2. Actual costs method (unchanged).

The actual costs method has never been all that popular because you need to keep records of every expense incurred and depreciating asset purchased, as well as evidence to show the work-related use of the expenses and depreciating assets. By way of example, to claim electricity expenses, the ATO suggests that you need to find out the cost per unit of power used, the average amount of units used per hour (power consumption per kilowatt hour for each appliance) and the number of hours the appliance was used for work-related purposes.

For this reason, the fixed rate method has been preferred (or in recent years the COVID shortcut method where you could simply claim 80 cents for each hour worked from home. Note, however, that the COVID method is no longer available).

The fixed rate method has now been revised. The revised fixed-rate method increases your claim from 52 cents to 67 cents per hour. However, **this rate now includes internet, phone, stationery and computer consumables.** Therefore, you can't claim these expenses separately in addition to your home office fixed rate deduction. Cleaning expenses and depreciation on office furniture are no longer included in the fixed rate. Therefore, you can now claim these expenses separately.

The record keeping requirements under the revised fix rate method are now more onerous, also. You now need to keep a record of actual hours worked from home. The ATO will accept a record in any form, but it suggests: timesheets, rosters, logs of time spent accessing systems, time-tracking apps, or a diary. The ATO will no longer accept estimates or a four-week representative diary.

This new, strict record keeping requirement applies from 1 March 2023 so you should update your records from this date to account for hours spent working from home. For the period before 1 July 2022 to 28 February 2023 the ATO will accept a four-week representative diary. We have included on the last page of this edition a sample Working From Home Diary for you to use or adapt to your circumstances.

If you have any questions around these stricter rules, and how they may impact you, reach out to us.

FBT AND CAR LOGBOOKS

By Ivan Yeung

With the end of the FBT year upon us, are your car logbooks in order?

The operating cost method is used by many employers to calculate their car FBT liability. This method is particularly effective where the business use of the vehicle is high. Keeping a logbook is essential to use the operating cost method.

Employees need to prepare a logbook for any vehicle that you provide them with if there is an element of private use. The logbook period is for 12-weeks, which must be representative of typical usage. For example, a period where an employee is taking a block of annual leave is not representative.

Where employees share a vehicle during a year, each employee will need to prepare a logbook to substantiate their respective business use percentage.

Logbooks are valid for five FBT years (including the year the logbook is prepared), provided there is no significant change in the vehicle's business use. Once the five-year period expires, a new logbook will need to be kept if you wish to continue using the operating cost method.

As noted, a new logbook will need to be prepared where there is a significant change in the business use of a vehicle. Indeed, it is in an employer's interests for a new logbook to be prepared where the business use of the vehicle increases, as this will result in a decreased FBT liability.

If a new logbook is required to be kept, but has not yet been...don't panic! The 12-week period can overlap two FBT years provided it includes at least part of the relevant year.

The logbook must contain:

- when the logbook period begins and ends
- the odometer readings at the start and end of the logbook period
- the total number of kilometres travelled during the logbook period
- the number of kilometres travelled for each journey. If you make two or more journeys in a row on the same day, you can record them as a single journey
- the business-use percentage for the logbook period
- the make, model, engine capacity and registration number of the car.

For each journey, record the:

- reason for the journey (such as a description of the business reason or whether it was for private use). Note that a generic description of a journey, such as 'business use', is not adequate
- start and end date of the journey
- odometer readings at the start and end of the journey, and
- kilometres travelled.

These entries should be made contemporaneously, as soon as possible after each trip.

A common misconception among employers with commercial vehicles, such as dual-cab utes is that they are automatically exempt from FBT and therefore there is no requirement to maintain a logbook. This is generally only the case where the private use is negligible.

If you are uncertain about your FBT logbook obligations, contact us.

CRYSTALISING CAPITAL LOSSES

By Philip Gruchy

It's been a particularly difficult 12 months for investors with many experiencing unrealised losses.

It's important however to be mindful that these losses are merely paper losses. That is, these losses are only realised, and locked in, if:

- in the case of property or shares, you sell the asset, or
- in the case of superannuation, by selling assets or withdrawing super when investment balances are down.

If you retain the asset, you may be able to ride things out and hopefully the market bounces back.

If you determine that an asset has little potential for future growth and decide to sell and happen to make a capital loss you can deduct capital losses from your current or future capital gains to reduce CGT liability. Capital losses must be used at the first opportunity. If you have any capital losses in the current year, or unused capital losses from previous years, you must use these losses to reduce any capital gains in the current year, and use the earliest losses first.

Of course, tax is not the only consideration when weighing up whether to retain or dispose of a CGT asset. Talk to your advisors before selling.

PAYG INSTALMENT VARIATIONS

By Miryam Schejtman

The ATO is encouraging accountants to educate clients around varying PAYG instalments – this can potentially assist cashflow.

As background, PAYG (pay-as-you-go) instalments allow business and investor taxpayers to make regular prepayments towards the tax on their business and investment income. This is in contrast to salary and wage earners who already make prepayments by having tax withheld from their income each time they are paid.

Business and investment taxpayers, including individuals who are contractors for PAYG withholding purposes, will automatically be entered into the PAYG instalments system if they earn over the entry threshold in business and investment income in their latest lodged tax return. These thresholds currently stand at:

- ***Individuals (including sole traders)*** – your instalment income from your latest tax return was $4,000 or more, and the tax payable on your latest notice of assessment was $1,000 or more, and you have estimated (notional) tax of $500 or more.
- ***Companies and super funds*** – have instalment income from their latest tax return of $2 million or more, or have estimated (notional) tax of $500 or more, or are the head company of a consolidated group.

If your financial situation has changed, your expected tax liability may also change. This means your current PAYG instalments may add up to more, or less, than your tax liability at the end of the financial year.

The good news is that you can vary your instalments so the amount you prepay is closer to your expected tax for the year.

If you pay PAYG instalments using the instalment dollar amount provided by the ATO (option 1 on your Activity Statement), you may want to vary if there has been a significant change in your instalment income this year.

If you calculate your PAYG instalments using the instalment rate (option 2 on your activity statement):

- you do not need to vary simply because your income has changed – the payment you calculate will go up and down in line with your income
- you would usually only vary if the taxable proportion of your income has changed – for example, if your income has fallen significantly but your deductions for running costs have stayed the same.

There are however, dangers in varying. If you vary your instalments downwards and you underestimate your eventual income for the year, you could be left with a substantial tax bill when you lodge your tax return at the end of the year. Also, when the ATO receives your tax return, they compare your actual instalments to the total tax payable on your instalment income for the income year. If your varied instalments are less than 85% of your total tax payable, you may have to pay a general interest charge on the difference, in addition to paying the shortfall. Depending on the circumstances there may also be penalties.

If you are unsure, it is best to not vary your instalments without speaking with us.

If you feel your current year business or investment income is likely to be more or less than the dollar amount of your PAYG instalments you are paying, chat to us about varying your instalments.

COMPASSIONATE RELEASE OF SUPER

By Kushal Sharma

Last year 9,700 individuals applied for compassionate release of super for dental treatment expenses, and 82% were approved.

While normally superannuation must be preserved for retirement, there are limited exceptions. One of these is compassionate grounds. An individual must apply to the ATO for a determination that an amount of the person's preserved benefits or restricted non-preserved benefits in their fund be released on compassionate grounds due to the individual lacking the financial capacity:

A. to pay for medical treatment (defined as life-threatening illnesses or to alleviate acute or chronic pain or mental disturbance or medical transport for the person or a dependant)
B. to enable payments to prevent foreclosure by a mortgagee or the exercise of an express or statutory power of sale over the family home
C. to pay for home and vehicle modifications to accommodate the special needs of a severely disabled person or dependant
D. to pay for expenses associated with the person's palliative care, death, funeral or burial, or

- to meet expenses in other cases where the release is consistent with items (A) to (D).

Where one of these conditions is met, the benefit must be released as a single lump sum not exceeding the amount that is determined by the ATO to be reasonably required, based on the nature of the hardship and the person's financial capacity. The ATO must provide a copy of its written determination to both the individual applicant and the trustee of their superannuation fund.

Before making an application, individuals should consider:

- The impact on your retirement savings, noting the compounding nature of superannuation investments. Each time you dip into your super, you're reducing the power of compound investment returns.
- Speaking with your investment adviser.

REDUCTION IN DOWNSIZER ELIGIBILITY AGE

By Kerry Taylor

The eligibility age for downsizer contributions reduced from 60 to 55 years from 1 January 2023. This means if you are age 55 or older, you could invest the proceeds from the sale of your family home to your superannuation outside of your standard contribution caps.

Downsizer contributions

From 1 January 2023, if you're aged 55 years or older you may be eligible to make a downsizer contribution of up to $300,000 (or $600,000 for a couple) to your superannuation fund from the proceeds of the sale of your home where specific requirements are met.

Downsizer contributions can be a great way of boosting your superannuation after retirement. As well as the extra capital they introduce, the contributions can also earn investment income that is either tax-free if you commence an income stream with the funds or be taxed at a concessional tax rate of as low as 15% whilst in accumulation phase.

Eligibility requirements

To be eligible to make a downsizer contribution, you must answer yes to all of the following conditions:

1. You must be aged 55 or over from 1 January 2023 (or age 60 or over for any downsizer contributions made between 1 July 2022 and 31 December 2022. Note, prior to 1 July 2022, the eligibility age was 65 years and over).
2. The amount of the contribution is an amount equal to all or part of the sale proceeds (capped at $300,000 per person) of a qualifying main residence, where the contract of sale of the main residence was exchanged on or after 1 July 2018.
3. The home was owned by you or your spouse for 10 years or more prior to the sale. Further, your home must be in Australia and must not be a caravan, houseboat or other mobile home.
4. The proceeds of selling your home are either fully exempt or partially exempt from capital gains tax under the main residence exemption or, if the home was acquired before 20 September 1985, would have been exempt.
5. You make the downsizer contribution within 90 days of receiving the proceeds of sale (ie, usually settlement date).
6. You complete and provide the 'Downsizer contribution into super form' (NAT 75073) which is available on the ATO website and provide it to your superannuation fund either before or at the time of making the downsizer contribution.
7. You have previously not made a downsizer contribution from the sale of another home.

Provided that the above conditions are met:

- There is no obligation to purchase a new home or to move to a smaller or cheaper home...you can even move into another home you own! You simply need to sell your home and meet the above criteria to make a downsizer contribution.
- There is no maximum age limit to make a downsizer contribution.
- The downsizer contribution does not count towards your non-concessional or concessional contributions caps. The contribution is in addition to these caps.
- There is no requirement to meet a work test or work test exemption to make a downsizer contribution, and
- Downsizer contributions can be made regardless of the size of your total superannuation balance (TSB).

This means a downsizer contribution can still be made even if you have more than $1.7 million in superannuation.

Downsizer contributions count towards your total super balance (TSB)

While downsizer contributions can be made regardless of what your TSB is, once the downsizer contribution is made to superannuation it forms part of your TSB.

At this point, the downsizer contribution will increase your TSB which may impact your eligibility to:

- Make carry forward concessional contributions
- Make non-concessional contributions
- Receive government co-contributions, and
- Receive a tax offset for spouse contributions.

Similarly, a downsizer contribution will also count towards your transfer balance cap (TBC), which applies when you move your superannuation into retirement phase to commence an income stream.

So, if you intend to use your sale proceeds to commence a superannuation income stream in retirement, it's important to note that you have a personal TBC of up to $1.7 million on the total amount that can be transferred from a superannuation account into a tax-free superannuation income stream.

Preservation considerations

Although the age to make a downsizer contribution has reduced to age 55, you should be aware that the contribution will be preserved until you satisfy a condition of release, such as retirement after reaching your preservation age (currently age 59) or ceasing a gainful employment arrangement after reaching age 60.

However, if you have retired or met another condition of release that frees up your superannuation, the downsizer contribution could still be accessed to provide an income stream but it will have to be by way of a transition to retirement income stream, which is slightly more restrictive than a regular income stream, such as an account-based pension.

Need advice?

Although making a downsizer contribution may seem to be a straightforward strategy, there are a number of eligibility requirements and nuances that you must be aware of when utilising these rules. If you're thinking about downsizing and contributing to superannuation but want more information, we can help explain the rules in further detail and discuss how you may benefit from this scheme, based on your particular circumstances.

THE IMPORTANCE OF CASH FLOW FORECASTS

By Andrew Goldman

With many economists predicting a slowing of the economy, planning your business cashflow is more important than ever.

Studies suggest that the failure to plan cash flow is one of the leading causes of small business failure. To this end, a cash flow forecast is a crucial cash management tool for operating your business effectively.

Specifically, a cash flow forecast tracks the sources and amounts of cash coming into and out of your business over a given period. It enables you to foresee peaks and troughs of cash amounts held by your business, and therefore whether you have sufficient cash on hand to fund your debts at a particular time.

Moreover, it alerts you to when you may need to take action – by discounting stock or getting an overdraft, for example – to ensure your business has sufficient cash to meets its needs. On the other hand, it also allows you to see when you have large cash surpluses, which may indicate you have money that ought to be invested.

In practical terms, a cash flow forecast can also:

- make your business less vulnerable to external events in the economy, such as interest rate rises
- reduce your reliance on external funding
- improve your credit rating
- assist in the planning and re-allocation of resources, and
- help you to recognise the factors that have a major impact on your profitability.

At this point, a distinction should be drawn between budgets and cash flow forecasts. While budgets are designed to predict how viable a business will be over a given period, unlike cash flow forecasts, they include non-cash items, such as depreciation and outstanding creditors. By contrast, cash flow forecast focus on the cash position of a business at a given period. Non-cash items do not feature. In short, while budgets will give you the profit position, cash flow forecasts will give you the cash position.

Cash flow forecasting can be used by, and be of great assistance to, the following entities:

- business owners
- start-up business
- financiers

A cash flow forecast is usually prepared for either the coming quarter or the coming year. Whether you choose to divide the forecast up into weekly or monthly segments will generally depend on when most of your fixed costs arise (such as salaries, for example). When you are making forecasts, it is important to use realistic estimates. This will usually involve looking at last year's results and combining them with economic growth, and other factors unique to your line of business.

When forecasting cashflow, usually a forecast will list:

- receipts
- payments
- excess receipts over payments (with negative figures displayed in brackets)
- opening balance
- closing bank balance.

Reach out to us if you would like to know more.

ACCOMMODATION SHARING AND TAX

By Philip Gruchy

The ATO has reminded taxpayers around their sharing economy tax obligations when providing accommodation.

The sharing economy provides a great opportunity for individuals with spare rooms or spare entire properties to rent out space and earn rental income using facilitators such as Airbnb. Indeed, approximately 2.1 million individuals reported rental income of $42 billion in the past financial year. This comes as the ATO announces a new data-matching program specifically targeting around 190,000 taxpayers receiving income from short-term rentals. The ATO said it would examine the information provided by online platforms like Airbnb to identify taxpayers who had left out rental income and over-claimed deductions.

If you are renting out rooms of your home, or indeed entire properties – whether via Airbnb or another facilitator, or indeed just privately – there are many tax issues to be aware of:

Rental Income

This will need to be declared in your tax return, irrespective of whether you rent out a room or an entire property, and irrespective of whether this is your main source of income.

Rental Expenses

Expenses associated with renting out your property can be claimed as a tax deduction. However, there can be a number of complexities. Expenses directly associated with the rented area are deductible in full, while expenses that relate to shared areas (i.e. areas that you as the host may share with renters), must be apportioned. Expenses that relate to the host's private area only are not deductible.

Expenses include claims for depreciation and also capital works deductions (i.e. depreciation on the building structure). Expert advice should be sought as this is a complex area, with significant deductions potentially in play.

Capital Gains Tax

Broadly, the sale of your main residence is free from Capital Gains Tax (CGT) when you sell it, where it was the main residence for the entire time you owned it, and it was not used to produce income. However, if you are renting out a portion of your home, you will only be eligible for a partial main residence exemption. If you are renting out the entire home, then none of the property will enjoy the main residence exemption for that period. Exceptions however apply, including the ability to rent out your home for six-years, and yet still enjoy the full CGT main residence exemption. This exemption however is subject to a number of conditions, and advice should be sought on your specific circumstances.

It is important to note that properties purchased prior to 20 September 1985 are totally exempt from CGT, irrespective of whether they are rented out.

Goods and Services Tax

Income from renting out part or all of a residential property is typically "input-taxed". This means that you should not charge GST on the rent that you earn from guests. Conversely, you cannot claim GST credits for any rental expenses that you incur, but you are entitled to claim the GST-inclusive amount of any rental expenses as a tax deduction.

Take-Home Message

The number of people renting out their house or part of their house has exploded in recent times, due in large part to facilitators such as Airbnb. While this is a great avenue for earning essentially passive income, there are a number of tax issues that landlords need to be across.

If you would like to discuss any aspect of tax around accommodation-sharing or rental properties more generally, contact us.

FBT EXEMPTION FOR ELECTRIC VEHICLES

By Ivan Yeung

With car fringe benefits one of the most common benefits provided by employers to employees, a new ATO fact sheet shines more light on the FBT exemption.

To recap, in the October 2022 Federal Budget, the government announced that it would exempt from FBT the private use, or availability for use, of cars to current employees that are zero or low emissions vehicles with a value at first retail sale below the luxury car tax threshold for fuel efficient vehicles. This is aimed at making electric cars more affordable, to encourage a greater take-up of electric cars by Australian road users to reduce Australia's carbon emissions from the transport sector.

The new law applies to fringe benefits provided on or after 1 July 2022 for cars that are eligible zero or low emissions vehicles that are first held and used on or after 1 July 2022.

To be clear, the new rules apply to cars that are collectively referred to as zero or low emissions vehicles, namely:

- battery electric vehicles
- hydrogen fuel cell electric vehicles, and
- plug-in hybrid electric vehicles.

For such vehicles, an FBT exemption should normally apply where both: the value of the car is below the luxury car tax threshold for fuel efficient vehicles ($84,916 for the 2022/23 financial year), and the car is both first held and used on or after 1 July 2022.

From 1 April 2025, private use of a plug-in hybrid EV is no longer eligible for the exemption unless: (i) use of the plug-in hybrid electric vehicle was exempt before 1 April 2025; and (ii) the employer has a financially-binding commitment to continue providing private use of that vehicle on and after 1 April 2025.

Other key points are:

- An FBT exemption may apply to a car benefit arising if either:
  - you allow your current employees, or their associates, to use a zero or low emissions vehicle (electric vehicle) for their private use, or
  - the electric vehicle is considered available for your current employees', or their associates', private use under FBT law.
- If an employer or lessor provides an employee with the use of a car by means of a lease arrangement, the benefit provided is only a car benefit if the car lease arrangement is a bona fide car leasing arrangement.
- Associated benefits arising from the provision of certain car expenses provided with the electric vehicle are also exempt from FBT. These are not included when working out if an employee has a reportable fringe benefits amount. These benefits may be provided as an expense payment, property or residual benefit, and include: registration and road user charges, insurance, repairs and maintenance and fuel (including electricity to charge and run electric vehicles).
- Providing your employee with a home charging station is a fringe benefit – the benefit is not an exempt associated benefit.
- If the use of the car and the associated car expenses are provided under a salary sacrifice arrangement, the exemption can still apply.
- Even if an exemption applies for the electric vehicle car benefit, you still need to work out the taxable value of the car benefit provided. This is because the car benefit's value is used in working out if the employee has a reportable fringe benefits amount. This does not include the value of any associated car expense benefits.
- An employee's reportable fringe benefits amount is reported on their income statement or payment summary. Employees do not pay income tax on this amount, but it does impact their income tests and thresholds for family assistance, child support assessments and some other government benefits and obligations.
- The government will complete a review of this exemption by mid-2027 to consider electric vehicle take-up.

Touch base with us, for more information about this new FBT exemption.

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WORKING FROM HOME DIARY

Revised fixed-rate (67 cents per hour) method

Taxpayer's name:______________________ Tax file number:______________________ Year ended:______________________

Date	Start time	End time	Private time	Total time worked	Description of work done

Signed (taxpayer):______________________ Date:______________________