GFM Gruchy Accounting

THE PRACTITIONER

Tax News and Commentary for you and your business

Edition #19 - 2023

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

For accountants and advisors, the month of June each year is like an sporting pre-season as we build a foundation for the upcoming financial year. This year is no different.

In this edition of The Practitioner we take a look at the new asset write-off rules, ATO targets for the 2022/2023 tax season including new ways to claim work from home expenses, deadlines as well as strategies for claiming superannuation deductions and some general housekeeping issues around cashflow and cyber security.

As we approach the new financial year and gear up for a new tax season, we thank all of you for your continued support and look forward to working with you again in the 2024 financial year. As always, if you feel you would like to discuss any issues covered in the previous or current editions of The Practitioner please do not hesitate to give us a call.

TEMPORARY FULL EXPENSING (TFE)...GET IN QUICK!

By Andrew Goldman

Generous depreciation in its final days.

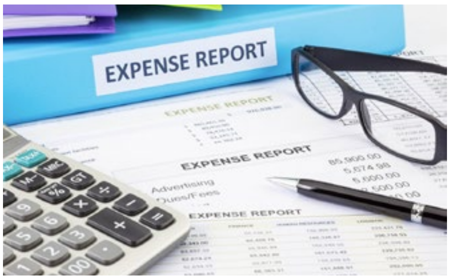
The recent federal budget confirmed that temporary full expensing (TFE) is now in its final days and will cease on 30 June 2023 to be replaced by a $20,000 instant asset write-off from 1 July 2023.

Under this change, small businesses (aggregated annual turnover of less than $10 million) will be able to immediately deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. Assets valued at $20,000 or more (which cannot be immediately deducted) will be placed into a small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

TFE, which allows eligible businesses with a turnover of less than $5 billion to deduct the full cost of eligible depreciable assets of any value, is however still available **up to 30 June 2023**.

There is no cost threshold – the whole cost of the asset can be written off in the relevant year. However, cars can only be depreciated up to the car limit which is currently $64,741.

To take advantage of this, and assist your cashflow, note the following dates for 2022-23 whereby an eligible business can claim a deduction for the business portion of the cost of:



- eligible new assets first held, first used or installed ready for use for a taxable purpose between 1 July 2022 and 30 June 2023 if you have a turnover of less than $5 billion
- eligible second-hand assets where both the asset was first held, first used or installed ready for use for a taxable purpose between 1 July 2022 and 30 June 2023 for entities with aggregated turnover of less than $50 million.

Most business assets are eligible including machinery, tools, furniture, business equipment etc. There are however some ineligible assets as follows:

- buildings and other capital works for which a deduction can be claimed under the capital works provisions in the Tax Act
- trading stock
- CGT assets
- assets not used or located in Australia
- where a balancing adjustment event occurs to the asset in the year of purchase (e.g. the asset is sold, lost or destroyed)
- assets not used for the principal purpose of carrying on a business
- assets that sit within a low-value pool or software development pool, and
- certain primary production assets under the primary production depreciation rules (e.g. facilities used to conserve or convey water, fencing assets, fodder storage assets, and horticultural plants (including grapevines)).

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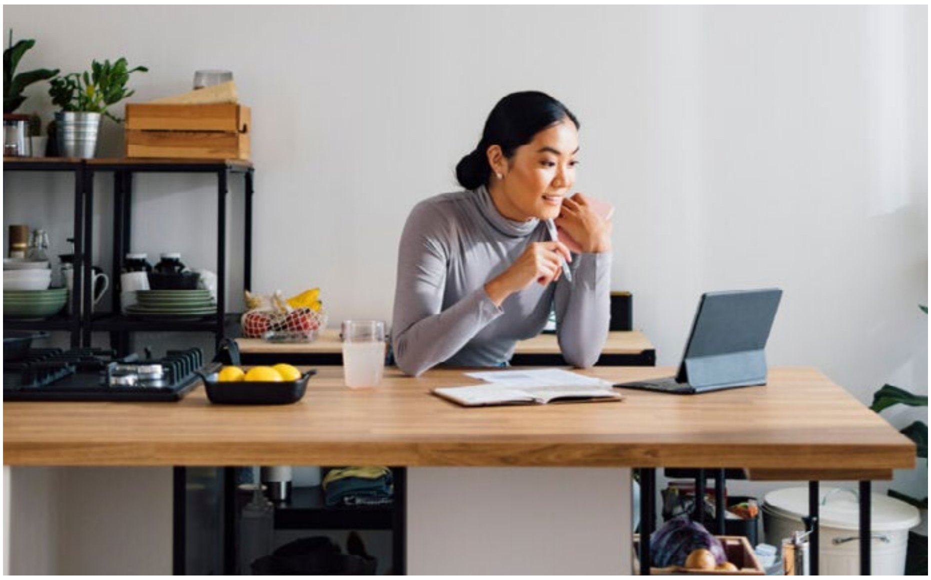
ATO TAX TIME FOCUS AREAS

By Ivan Yeung



With the end of the financial year on our doorstep, the ATO has announced its three key focus areas for 2022-23 Tax Time – rental property deductions, work-related expenses, and capital gains tax (CGT). To maximise your claims in this area and protect yourself from ATO audits and adjustments, be sure to keep the appropriate records.

Work-related expenses

This year the ATO is particularly focused on ensuring taxpayers understand the changes to the working from home methods and are able to back up their claims. To claim your working from home expenses as a deduction, you can use the actual cost method, or the revised fixed rate method, provided you meet the eligibility and record-keeping requirements as follows:

RECORD-KEEPING	
Revised Fixed Rate Method	Actual Cost Method
A record of all the hours you work from home for the entire year (e.g. a timesheet, roster, diary or similar document)	You will need to keep a record for every expense you claim
Evidence you paid for the expenses covered by the revised fixed rate method (for example, if you use your phone and electricity when you work from home, keep one bill for each of these expenses)	Receipts, bills or invoices which show the supplier, amount of the expense, nature of the goods, date it was paid and the date of the document
Records for items you claim as a separate deduction	Evidence of your personal and work-related use of the items or services you buy and use
From 1 July 2022 to 28 February 2023, the ATO will accept a record which represents the total number of hours worked from home (for example, a four-week diary).	You can work out your work-related expenses using records for the entire year or over a four-week period that represents your work use – for example, using a diary or itemised bill
From 1 March 2023, a contemporaneous record of all the hours you worked from home is required (e.g. a timesheet)	

In relation to depreciating of assets and equipment you will need records that show:

- when and where you bought the item and its cost
- when you started using the item for a work-related purpose
- how you work out your percentage of work-related use, such as a diary that shows the purpose of and use of the item for work.

Chat to us if you have any questions around which method to use and the records to keep.

CGT

Capital gains tax (CGT) comes into effect when you dispose of assets such as shares, crypto, managed investments or properties. Inform us if you have disposed of such assets between1 July 2022 to 30 June 2023.

Be mindful that the ATO has extensive data-matching capabilities and, as such, will likely be able to detect the sale of most CGT assets.

Rental property deductions

Many landlords will expect large amounts of deductions to be claimed when their returns are lodged. However, your record keeping will significantly impact the deductions that can be claimed. Talk with us regarding the record keeping requirements if you are unsure.

Keep records of the following:

- bank statements showing the interest charged on money you borrowed for the rental/commercial property
- loan documents (including refinancing)
- land tax assessments
- documents or receipts that show amounts you paid for:
  - advertising (including efforts to rent out the property)
  - bank charges
  - council rates
  - gardening
  - property agent fees
  - repairs or maintenance etc.
- documents showing details of expenses related to:
  - the decline in value of depreciating assets
  - any capital work expenses, such as structural improvements
- before and after photos for any capital works
- documents that show periods of personal use by you or your friends
- documents that show periods the property is used as your main residence
- tenant leases
- when you sell a property:
  - contract of sale
  - conveyancing documents
  - sale of property fees.

This year, the ATO is particularly focused on interest expenses and ensuring rental property owners understand how to correctly apportion loan interest expenses where part of the loan was used for private purposes (or the loan was re-financed with some private purpose).

MAXIMISING CASHFLOW

By Philip Gruchy

The predicted slowing of the economy in 2023-24 along with the pay day super guarantee (SG) proposal are sure to make cashflow more important than ever for business over the coming months and years, noting that it is one of the biggest difficulties faced by business.

To recap, from 1 July 2026, employers will be required to pay their employees' super at the same time as their salary and wages. Currently, SG is payable quarterly – allowing business more time to make provision for this obligation.

There are a number of strategies that may improve cashflow for your business:

PAYG instalment assistance

- In the recent federal budget, it was announced that there is PAYG instalment relief on the way. Currently, most small to medium-sized businesses are required to make pay as you go (PAYG) instalments which go towards their annual income tax liability. Entities that are liable to pay GST may also elect to pay by instalments.
- A 6% GDP uplift rate will apply to small to medium-sized businesses (and some individuals) who are eligible to use the relevant instalment method (this being up to $10 million aggregated annual turnover for GST instalments and $50 million annual aggregated turnover for PAYG instalments) for instalments relating to the 2023-24 income year and which fall due after the enabling legislation receives Royal Assent.
- This uplift factor is lower than the 12% rate that would have applied under the statutory formula, freeing up cash for businesses.

Reconsider the terms on which you deal with customers

- If a customer regularly cannot pay, or can not pay the full amount, you should perhaps consider the terms on which you deal with that customer. For instance, to protect yourself against future non-payment, you might like to only deal with that customer on an upfront payment basis. Decisions in this regard should be made on a case-by-case basis.

Send invoices immediately

- Delaying invoices until the end of the week or the end of the month, for example, may unnecessarily create cashflow problems for yourself. When you make the supply, send out the invoice!

Bank amounts that you receive

- By banking amounts as soon as you receive them, you will be better able to monitor your true cash situation at any point in time. Not banking amounts immediately leads to estimation and confusion as to the true cash position of your business.

Discounts for early payers

- Offer discounts to customers who pay early. A word of caution – it is important to strike a balance between a reasonable discount, and your desire for early payment. Offering sizeable discounts for money that may have been paid in full a few days later anyway will end up causing its own cashflow problems! In most cases, it is best to keep the discounts small, and require the payment well before the due date.

Insurance for debtors

- If you are a business that relies heavily on a few clients, you should consider taking out insurance. By insuring against the failure of your major debtors, you can safeguard against their potential collapse.

Increase your time to pay

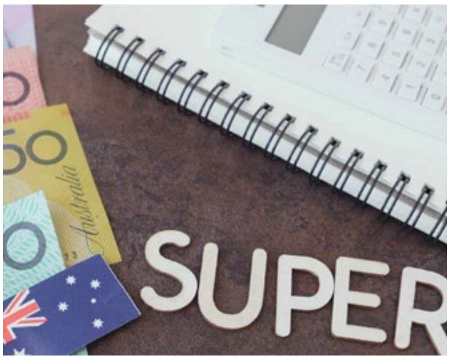
- Try to get creditors to extend their due dates for payment, for example, from 14 days to 30 days; from 30 days to 60 days; or from 60 days to 90 days. Any extra time that you have to pay amounts owing is effectively interest-free money.
- Consider charging deposits for significant orders. Not only does this guarantee at least part payment, but also makes customers think twice before cancelling their orders for goods that are in the process of being made available.

Excess stock

- Businesses need to make sure that they do not have excessive stock. Ideally, businesses should aim to have enough stock to keep customers happy and not have (if applicable) your store looking empty. Beyond that, any excess stock is merely tying up cash.

Prepare a cashflow forecast

- We can assist with the production of this.



HOW TO CLAIM AN EARLY TAX DEDUCTION ON SG CONTRIBUTIONS

By Kerry Taylor

Are you an employer who needs to make superannuation guarantee (SG) contributions for your employees? If so, it may be worthwhile bringing forward these SG contributions to before 1 July to benefit from a tax deduction this financial year.

However, the timing of when SG contributions are deductible to an employer can be tricky if employers pay SG contributions for their employees via a superannuation clearing house (SCH).

Recap – what is a SCH?

The ATO's free Small Business Superannuation Clearing House (SBSCH) is the only 'approved' clearing house – none of the many commercial clearing houses have this status. The SBSCH is a free service that small businesses with 19 or fewer employees, or an annual aggregated turnover of less than $10 million, may use to make superannuation contributions to employees.

The SBSCH aims to reduce compliance costs for small business employers by simplifying and streamlining the process of making employee superannuation contributions, by allowing employers to make a single lump payment of their contributions to the SBSCH each quarter. That lump sum payment is broken into individual payments by the SBSCH, and then contributed to each employee's respective super fund or RSA.

Tax deduction available for employers

Employers can claim income tax deductions for SG contributions made to a superannuation fund on behalf of their employees, subject to certain conditions being met.

As the income tax deduction is available in the financial year the contribution is made, some employers may wish to improve their current year tax position by bringing forward the June quarter SG contributions to before 1 July, even though these SG contributions are not due until 28 July 2023.

Take care if you use a SCH

As mentioned above, SG contributions are tax deductible in the year in which they are made. That said, a contribution is not made until it is received by the fund, and when that happens depends on the way in which the contribution is made.

This is clear cut where an employer pays SG contributions directly to an employee's nominated superannuation fund. That is, the contribution will be made when it is received by the fund.

However, the timing of the tax deduction and when the contribution counts towards the employee's contribution cap is not as straightforward where SG contributions are made to a SCH for all employees. Here, the SCH electronically transfers SG contributions to employees' funds on the employer's behalf.

In this situation, the contribution is not made at the time the clearing house is credited with the funds from the employer. Rather, the contribution is made and therefore deductible when the funds are credited to the respective employee's superannuation fund (following an electronic transfer of money from the clearing house) and then allocated to the employee's superannuation account.

Tip – Employer SG obligations

For SG purposes, an employer who makes contributions via the SBSCH is treated as having satisfied its SG obligations when the monies are received by the clearing house.

Beware of timing delays

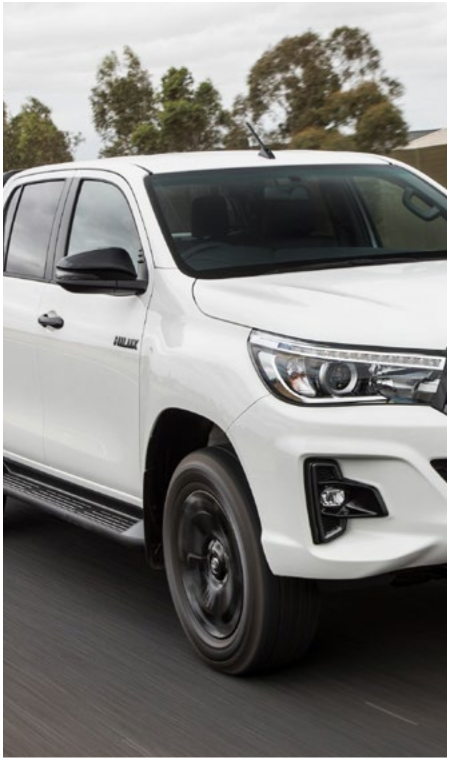
The ATO is aware that there may be a period of time between an employer's payment to the SBSCH and superannuation fund receiving the contribution. Further, the SBSCH may be unavailable over a weekend close to the end of the financial year for scheduled system maintenance.

This means that payments made towards the end of a financial year may not be received by an employee's superannuation fund in the same financial year. This may therefore impact when an employer is entitled to an income tax deduction for the SG contributions.

Action items for employers

For those employers who do not use the SBSCH but instead use commercial clearing houses, for the contributions to be deductible in 2022/23, it is recommended that it be made up to 21 days before the end of the financial year.

For employers who make contributions directly to their employees' superannuation funds, the contributions should be made a few days before the end of the financial year to ensure they are received before 1 July and therefore deductible in the current financial year.



FINANCING MOTOR VEHICLES

By Ivan Yeung

One of the most common decisions facing business is how to finance and account for the acquisition of a motor vehicle. There are numerous ways of doing so, with each resulting in differing accounting, taxation and GST treatment.

Options

How should you go about purchasing a vehicle? While it may seem a relatively straightforward question, some of the more common methods are:

- Outright Purchase
- Lease
- Hire Purchase, or
- Chattel Mortgage

Outright purchase

The advantage of purchasing a vehicle outright, as opposed to financing the acquisition of the vehicle, is that there will be no ongoing costs of finance. This is a real benefit now that interest rates are on the rise. On the downside, the outright purchase of a vehicle can impact greatly on the cash resources of an entity when those funds may be better utilised elsewhere. It is far easier to obtain finance for the acquisition of a vehicle than it is for the acquisition of trading stock. Care should therefore be taken not to cripple your business's cashflow if considering an outright purchase.

Lease

Rather than choosing to acquire a vehicle outright, your business may elect to finance the acquisition. The central issue that surrounds any form of financing, and how it is to be accounted for, is whether the person providing the asset under the finance arrangement is the legal owner of that asset. This issue goes to the heart of how the finance transaction is to be treated and is often the subject of ATO scrutiny. The ATO has warned taxpayers about the trap of claiming deductions for what appear to be lease payments when in fact the finance arrangement is a Hire Purchase or similar type of transaction. The only way to identify the difference is to read the terms and conditions of the finance agreement.

The ATO will consider a finance arrangement to be a lease when:

• There is no option to purchase the vehicle written into the agreement, and

• The residual value reflects a bona fide estimate of the vehicle's market value at termination.

If these two conditions are not met, the ATO considers the finance agreement to be a Hire Purchase or other instalment type agreement.

Under a leasing arrangement, the lease payments are a deductible amount to the extent the vehicle is used for income producing purposes, and the financed sum is not typically disclosed on the balance sheet of the entity.

Hire purchase or Chattel Mortgage

These are simply other forms of finance. Their tax and GST treatment however is vastly different from that of leasing. As a result, this form of finance needs to be considered on its own merits.

In essence, a hire purchase arrangement is an agreement to purchase goods by instalments. The term hire purchase is defined as:

> *" a contract for the hire of goods where:*
>
> *i) the hirer has the right or obligation to buy the goods; and*
>
> *ii) the charge that is or may be made for the hire, together with any other amount payable under the contract (including an amount to buy the goods or to exercise an option to do so), exceeds the price of the goods; and*
>
> *iii) title in the goods does not pass to the hirer until the option to purchase is exercised; or iv) where title in the goods does not pass until the final instalment is paid".*

Unlike a lease, where there is no obligation to acquire the goods at the end of the instalment period, a hire purchase arrangement provides for this obligation and as such the goods will be eventually owned by the purchaser.

A chattel mortgage from the perspective of recording the asset purchase and recognising the liability is identical to that of a hire purchase arrangement. A chattel mortgage is a security over chattels held by the lender giving the lender recourse against the chattel in the event of default by the borrower.

Not sure?

Please contact us if you would like to discuss your options and the tax consequences.

DO YOU HAVE A SIDE-HUSTLE?

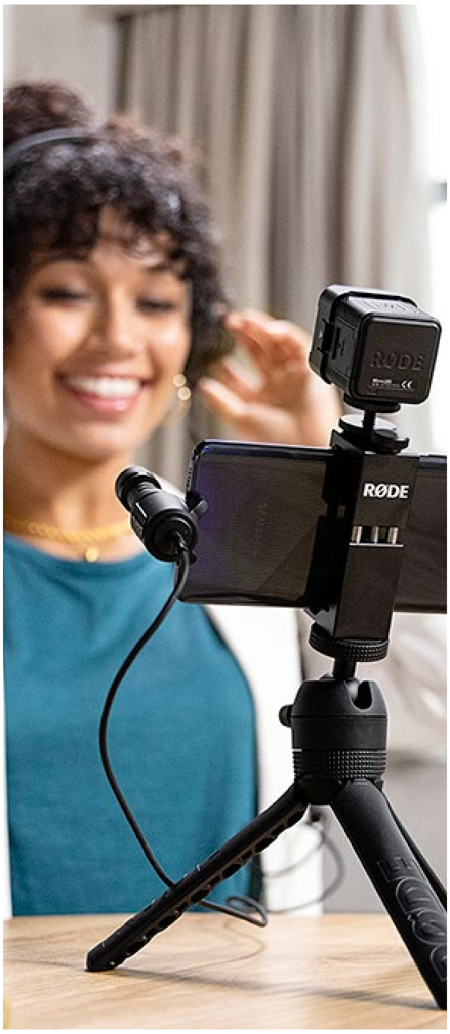
By Andrew Goldman

With the cost-of-living skyrocketing, have you taken up a side-hustle?

With new and emerging ways to make money, the ATO is reminding taxpayers to consider if they are 'in business' and to declare to their tax agent if they are engaged in such activities.

Record numbers of taxpayers are now working multiple jobs or supplementing their income with 'side-hustles' or 'gig' economy activities.

ATO Assistant Commissioner Tim Loh recently said if you earn money through continuous and repeated activities for the purpose of making a profit, then it's likely you're running a business.



"While there are always new and different ways to make money, the tax obligations remain the same. Don't fall into the trap of forgetting to include all your income thinking the ATO won't notice.

You also need to declare any additional income earned through that side-hustle."

Businesses have a range of obligations depending on their structure and turnover, including registering for an Australian business number (ABN), keeping the right records and lodging the right type of tax return. They may also have to register for GST.

The ATO is running an advertising campaign to remind taxpayers about their obligations.

Mr. Loh said:

> *"With tax time just around the corner, if you are bolstering your income with new activities, make sure all your records are up-to-scratch. This could be anything from animal breeding to earning income through digital platforms, such as ride share or food delivery, or even online content creation, like social media influencers.*
>
> *If your home has become more like a warehouse and is stocked to the hilt with goods to sell, then you may in fact be running a business.*
>
> *If you're running bootcamp sessions, in addition to your 9–5 job, well this is a side hustle and you need to declare this income to the ATO.*
>
> *If you're an online content creator earning money or receiving gifts, you're also likely to be running a business and there are tax obligations you need to comply with."*

Mr. Loh acknowledged 'sometimes it's hard to tell if you're 'in business' and we recognise not everything you do to make money is considered a business. The ATO won't consider activities as 'in business' when they are a one-off transaction (unless it is the first step in carrying on a business or intended to be repeated) or an activity from which you don't seek to make a profit.'

The ATO has sophisticated data-matching and analytical tools to identify taxpayers that under-report their income. From 1 July 2023, the Sharing Economy Reporting Regime will commence and the ATO will receive data from more electronic distribution platforms. The ATO will match this information with the information taxpayers provide on their tax return or activity statement to identify income that has not been included.

Mr. Loh said:

> "It doesn't matter whether you are carrying on a business or simply earning additional income through a digital platform, such as a website or even an app, you must keep accurate records of your income and include it in your tax return."

If you are finding your feet in business, we are here to support you.

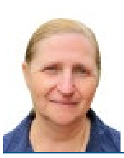
Case study: Hayley heads off-track for fun, but on the right track for business

Hayley works in hospitality at night and spends most days fishing or four-wheel driving. She decides to start developing 'how-to' YouTube videos when fishing and four-wheel driving. Hayley's online following is rapidly increasing, and she's now earning money from her videos.

With the growing online interest, Hayley cuts back her hospitality work and starts to invest more effort into her videos. Hayley sets up a production schedule that sets out the type of content she will produce on a weekly basis, buys equipment to improve her production quality, completes an online video editing course to improve her editing skills and records all expenses from her content creation activity.

Hayley wants to know if her side-hustle activities are a business. She looks at all her activities together and determines she is running a business because she:

- intends to make a profit to supplement her salary and wage income
- set up a regular schedule for these activities
- operates in a business-like way (she has a plan and system for making a profit).



TOP CYBER SECURITY TIPS FOR BUSINESS

By Miryam Schejtman

It is important you keep all your business, staff and client information secure. If your data is lost or compromised, it can be very difficult, time consuming, and costly to recover.

The federal government has created a list of top security tips to help keep your and your clients' information safe.

Use strong and secure passwords

Regularly change passwords and do not share them.

Use multi-factor authentication where possible. This requires users to provide multiple pieces of information to authenticate themselves – for example, a text message to your phone when logging in to a website.

As a business owner, remember:

- multi-factor authentication puts an additional layer of security on your accounts, making it harder for others to access your account
- consider using a password that includes numbers and symbols which is easy for you to remember but difficult for someone to guess (for example, P!ne@pp1eP!zz@).

Remove system access from people who no longer need it

Immediately remove access for people who:

- no longer work for your business
- have changed positions and no longer require access.

Unauthorised access to systems by past employees is a common cause of identity security or fraud issues for businesses.

Make sure all devices have the latest available security updates

Run weekly anti-virus and malware scans and have up-to-date security software.

Instances of malicious software (malware) are increasing. It can be easy to accidentally click on an email or website link which can infect your device.

In some instances, your device may be impacted by ransomware which can:

- lock your computer until you pay a fee to the hacker
- install software which provides access to your bank accounts, allowing criminals to steal your business's money.

Do not use USBs or external hard drives from an unfamiliar source

USBs and external hard drives may contain malware, which can infect your business computers without you noticing.

It can cost your business a lot of money to repair the damage.

Stolen information could be used to commit crimes, often in your business's name.

Be vigilant about what you share on social media

Keep your personal information private and be aware of who you are interacting with.

Before sharing, ask yourself if it is information you want strangers to have access to.

Scammers can take information you publicly display and impersonate you or your business. Impersonators may send emails to trick your staff into providing valuable information or releasing funds.

Monitor your accounts for unusual activity or transactions

Check your accounts (including bank accounts and digital portals) for transactions or interactions you did not make, or content you did not post.

If an organisation you deal with sends you an email alerting you to unexpected changes on your account:

- don't click on included hyperlinks
- don't log on to the organisation's website by using links or attachments included in the email.

You should immediately:

- check those accounts
- contact the organisation by phone.

Ensure your mail is secure

Consider using a secure PO Box.

Mail theft is a leading cause of information security breaches.

CAN YOU CONTRIBUTE TO YOUR CHILD'S SUPER ACCOUNT?

By Kushal Sharma

Are you a parent or grandparent wondering whether you can contribute to your child or grandchild's superannuation account to give them a financial head start? The answer is that it is possible, however, there are a few issues to consider before you go down this path.

Making contributions to a child's account

Superannuation law categorises contributions as either employer contributions or member contributions and provides eligibility rules for superannuation funds to accept these contributions.

Member contributions are all contributions by, or on behalf of, the member to the fund that are not employer contributions. Member contributions are split into those made by the member, and those made by someone other than the member for the purposes of contribution eligibility.

So, if you're making a contribution on behalf of your child or grandchild who is under age 18 (ie, a child contribution), this type of contribution is treated as a non-concessional contribution of the child.

No tax deduction available for child contributions

Although you can contribute to a child's superannuation account, you won't be entitled to receive a personal tax deduction or offset from the contribution. This is because child contributions are non-concessional contributions, which are often referred to as after-tax contributions because they are made from after-tax money.

The only exception where you may be entitled to a personal tax deduction is where the child is employed in a family-owned business, and you are the child's employer.

Note – child contributions do not include contributions you make as a child's employer. These contributions are reported as employer contributions and count towards the child's concessional contributions cap instead.

Beware of the non-concessional contribution cap

Once you make a contribution for a minor child, the contribution will count towards the child's non-concessional contributions cap. The non-concessional contribution cap limits the amount a person is able to contribute into superannuation in any single financial year, where the beginning of a financial year is 1 July and the end is 30 June.

The standard non-concessional contribution cap for the 2022/23 financial year is $110,000 per person. The cap will remain the same in 2023/24.

Money will be preserved until the child's retirement

There's no denying that contributions made today will allow children to be better off in retirement due to the power of compounding interest. However, children generally won't be able to access their superannuation until they reach age 65 or when they retire (usually after 60). Given retirement is many years away and children may require funds much earlier in life, say to pay for a car, or for education or a home deposit, etc, there may be other options besides superannuation that may be ideal for giving children a financial head start in life.

Need more information?

If you're interested in helping out your children or grandchildren but are unsure of how to best provide for them, contact us today to discuss the options that may be available to you and your family.