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2020 FINANCIAL YEAR END NEWSLETTER

The last 12 months went by quickly; by our reckoning, this 2020 Year makes this Newsletter Number 36. The delivery of our Federal 2020 Budget has been deferred until October 2020 thus, we have not focused on any changes that we all love to whine about.

That is the bad news; the good news is that we have endeavoured to make this as interesting and useful as the subject matter allows.

We have included the list of deductions, some of which may assist you in ensuring that you do not pay more tax than the law requires. On the other hand, we need to remind you that our Federal Government is in the process of spending \$300b. (Maybe a touch less)

with the goal of helping our economy and society to cross a deep financial ravine. The ATO would be well aware of the need to claw back all that law allows.

Employee claims are again in the firing line, as are rental property owners. The ATO continues to improve compliance by processing and matching information. As we have highlighted, information requirements by Big Bertha have expanded and not contracted.

There was some good news for small business with the immediate \$30,000 asset write-off having been increased to \$150,000. We have included more details within this Newsletter.

We again remind you of our Website (www.lprtaylor.com.au) where you can access this Newsletter, past Newsletters as well as other riveting information. As always, we are looking forward to the new financial year with keenness and enthusiasm. Our professional team will be rested up to strength, and we are confident that we can meet your needs.

Be mindful the field of taxation is broad and complex. This Newsletter seeks to target just a few of the taxation/financial issues that could possibly affect you. Thus we hope that you read and find this Newsletter useful, but we ask that you see it as only a very small part of a very large picture. Where we have your email address, you will have received this Newsletter electronically.

Matter of the New Index

We have set out below an Index to all the separate paragraph headings. The headings are intended to provide you with an idea of the subject matter. If you see a topic that interests you, click on the heading and be taken directly to the information that you are seeking.

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THE OLD CHESTNUTS: FOR THOSE BUSY PEOPLE WHO ONLY READ THE EARLY PAGES - SOME REMINDERS

2020 Year-end Tax Planning (the old chestnuts)

As the year-end looms, it is important to be aware of those year-end tax savings matters must be in place before you go to bed on the 30th June 2020 (falls on a Tuesday this 2020 financial year). Also, be aware that the tax savings window of opportunity will not be there as you wake up on the 1st July 2020.

1. Some things for your end of year Checklist

1.1 Review of assets and write off what needs to be scrapped.

Review the useful lives of fixed assets and determine if there are any benefits in scrapping or trading in assets.

As part of our year-end work, we send out a prior year depreciation schedule. Take the time to review the schedule, as you can often get you a tax deduction for any remaining book value of scrapped assets.

1.2 Capital Losses

Selling inadequate performing assets may enable you to bring forward a tax loss that can be offset against any capital gains made throughout the financial year.

1.3 Accept and write off Bad Debts

Painful as it is, some debts are going to be bad. Bad debts can be used to offset Assessable Income if they are written off before the 30th June and provided they have previously been included as assessable income.

1.4 Write off obsolete Inventory

The year-end stock-take should involve a review of all inventories. Obsolete stock may be scrapped or valued below cost subject to **specific** guidelines.

1.5 Prepay some Expenses

Small business entities and individuals may bring forward deductible expenses such as rent, repairs and office supplies that cover an advance period of no more than 12 months.

1.6 Trust Distribution Resolutions

For all of you Trustees of Discretionary Trusts, soon we will be communicating with you re the year-end trust distribution draft resolutions. Please ensure when we reach the final stage that the Final Trustee Resolution is reviewed, signed, and sent back to us (or is safely tucked into your file) before the 30th June 2020.

1.7 Review Unpaid Expenses (your business Creditors)

For those in Businesses that account on an accruals basis and have fallen behind in paying their rent and other expenses, you may still claim the amount owing but not paid as a tax deduction.

1.8 Deferring some Income

Businesses that return income on a cash basis may benefit from deferring the receipt of the income until after the 30th June 2020. This can be as simple as deferring the issue of invoices for work that is not 100% complete.

2. Are you carrying on the business of being a Share Trader?

For the unskilled and undisciplined, the sharemarket and the Crown Casino have a lot in common. There were lots of folks that lost money on the sharemarket in the 2020 year and no doubt would like to share their losses with the ATO. If the ATO accepts your argument that you were carrying on the business of being a Share Trader and not just an Investor, and if all the boxes can be ticked you are able to claim your trading losses against other income (like salary & wages). The ATO has been here before and has published Guidelines as to when an activity fits the definition of being a share-trading business or, on the other hand an Investor ([ATO website: Shareholding as Investor or share trading as business?](#)). The bulk of us are Investors and our activities are taxed under the CGT provisions. The down side of our Investor/ CGT

status is that our losses can only be offset against a capital gain. So what are the attributes that the ATO expects to see in a Share Trader as compared to a Share Investor?

Share Trader	Investor
<ul style="list-style-type: none"> The nature of the activities and whether or not those activities have the purpose of Profit-making. 	<ul style="list-style-type: none"> The Investor typically holds share for a longer period of time.
<ul style="list-style-type: none"> The complexity and magnitude of the activity and is the trading regular routine and systematic. 	<ul style="list-style-type: none"> The Taxpayer relies predominantly on professional advice to make investment decision
<ul style="list-style-type: none"> Operating in a business-like manner and the level of sophistication involved. 	<ul style="list-style-type: none"> Limited time spent on the activity
<ul style="list-style-type: none"> Can a measurable amount of Profit /Loss be regarded as arising from a pattern of trading. 	<ul style="list-style-type: none"> The method of operation is simple
<ul style="list-style-type: none"> The volume of the transaction and the amount of capital deployed 	<ul style="list-style-type: none"> No trading plan developed
<ul style="list-style-type: none"> The repetition and regularity in the buying and selling of shares 	<ul style="list-style-type: none"> No contingency plan in place to absorb market downturns
<ul style="list-style-type: none"> Total trading turn over 	<ul style="list-style-type: none"> Inability to source funding in order to continue investment activity for an indefinite period of time
<ul style="list-style-type: none"> Whether the Taxpayer is operating to a plan, setting budgets and targets 	<ul style="list-style-type: none"> Limited records keeping
<ul style="list-style-type: none"> Does the Taxpayer maintain an office 	<ul style="list-style-type: none"> No home office is maintained.
<ul style="list-style-type: none"> Accounting for transactions on a gross receipts basis 	
<ul style="list-style-type: none"> Is the Taxpayer engaged in another full-time profession. 	

As you can see, it is much more difficult to qualify as a Share Trader than it is to qualify as a Share Investor.

3. Some Interesting Bits

3.1 Instant Asset Write-Off Threshold to 30th June 2020 (Corona Virus related)

The instant asset write-off threshold has been increased from \$30,000 to \$150,000 for each asset from the 12th March 2020 to the 30th June 2020 (but be mindful that for cars special rules apply in that the maximum claim is up to the depreciation limit for cars ie for 2020 the amount is \$57,581). In addition, the turnover threshold was increased from \$50 million to \$500 million. The write-off will apply to new and used assets. The catch is that the assets must be purchased after the 12th March 2020 and in use or failing that, installed and ready for use by the 30th June 2020. Plus, you need to be mindful for assets that you purchased between the 1st July 2019 and the 12th March 2020; the threshold was not \$150,000 but rather it was only \$30,000. Further, you need to be mindful that the Federal Government will not forget its generosity, as when the asset(s) are sold, the proceeds that you receive must be included in your assessable income and will be subject to tax.

But wait there is more: 15 month investment incentive from the 12th March 2020 to 30th June 2021

In addition, the Government is introducing a 15 month investment incentive (from March 2020 through to 30 June 2021) to support business investment and economic growth over the short-term. The support will come in the form of accelerating depreciation deductions. Businesses with a turnover of less than \$500 million will be able to deduct 50 per cent (on installation) of the cost of a new asset (which would be eligible for depreciation under Division 40 of the Income Tax act). The remaining 50% can be depreciated at the rate applicable to the assets useful life.

3.2 Base Rate Entities (ie those taxed at 27.5%) to be taxed at a lowered tax rate

Companies with an aggregated turnover of below \$50 million will have their tax rate lowered to 25% by 2021-2022. The next step in the downward journey will see the Company tax rate for eligible companies to be 26% for the 2021 year (unless there is a change of plan).

4. Some Reminders for Self-Managed Superannuation Funds (SMSF) - End of Financial Year

4.1 Concessional & Non-Concessional Contributions

Make no mistake, the Federal Government and those who run our nation's finances want you to hold money in superannuation for the sole purpose of having funds so that when you retire you can finance at least a portion of your living costs between retirement and death. But those in charge do not want you to have too much in Super savings. To establish and maintain the perceived correct balance between wants and needs there are all sorts of mechanism at play controlling on one hand how much you can contribute to ultimately when and how much you can withdraw.

Concessional (deductible) Contributions are those before tax. Examples of Concessional Contributions include (but not are not limited to), the 9.5% Super Guarantee, Salary Sacrifice amounts, and any Personal contributions which you claim as a tax deduction. For the 2020 year, the concessional contribution cap is \$25,000, however like much of Tax Law there are exceptions. The big exception is that although, the cap is \$25,000, if in one year you do not use all of the cap, (providing you meet the eligibility criteria), you can carry the shortfall forward for the next five years, i.e. if for the 2019 year you only contributed \$5,000, then in the 2020 year you are able to contribute and claim \$45,000 (providing, in the really fine print, that the balance of your fund at the end of the prior year is under \$500,000).

Be mindful that your Concessional Contributions will form part of your fund's Assessable Income and the net Taxable Income of your fund will be taxed at 15%.

Also be mindful that when it is all said and done, if the \$25,000 cap is exceeded, the excess contribution is taxed in your personal tax return at your Marginal tax rate less the 15% tax the Super Fund has paid.

Then there are the Non Concessional Contributions (i.e. after tax contributions.) There are two main types of non-Concessional Contributions:

- 1) Any Personal Contributions that you make directly into your fund but that you do not claim as a tax deduction
- 2) Any Spouse contributions made directly into your Spouse's account.

For the after tax contributions, the Government is more generous in that the cap is \$100,000 per year (the tax collectors can afford to be more generous as they do not allow you a tax deduction for the contribution). If you have the money and are keen to grow your member's balance, the Government will allow you to bring forward three years of your \$100,000 cap so that in say, the 2020 year you could contribute \$300,000 as a Non-Concessional Contribution.

Once you reach 65, when making non-concessional contributions, it is made just a touch more complicated by the Work Test. There are also some age considerations that can come into play. In short, if you are aged 65-74, you must be working for a minimum of 40 hours in any 30 consecutive periods in order to be able to make voluntary Non-concessional contributions into super. Moving along the timeline, once you reach 75 you can no longer make Non-Concessional Contributions.

(Be mindful that the Work Test does not apply to the \$300,000 downsizer contribution nor the Mandated contributions; i.e. the employer SG contribution is currently at 9.5%)

4.2 With Superannuation contributions Timing is crucial

Fundamental—we suggest that you dispatch your superannuation to the respective fund no later than the 19th June 2020. The early date will assist to ensure that your superannuation contribution is made and nested into your superfund's bank account by the 30th June 2020 (it is Tuesday).

4.3 Minimum Pensions - Withdrawing minimum pension (this is important):

We remind those of you drawing pensions from your superfunds that there is a minimum amount that must be extracted each year. The good news is that the Federal Government has acted with wisdom and has reduced the minimum percentage rate by 50% for the 2020 and 2021 financial year.

For the 2020 year, the pension amount is calculated on your Member's balance, as at the 1st July 2019. The balance would have been advised by us, to you as part of our 30th June 2019 year end work.

If you have misplaced our advice or you are at all unsure as to what your Minimum Pension amount is, please contact us. Once you are reminded of the minimum percentage, please do your sums and ensure that the amount you have withdrawn equals or exceeds the minimum requirements. (i.e.) under the "Temporary rate"

<u>Age</u>	<u>2020 Standard Percentage Factor</u>	<u>Temporary Rate</u> 2019/20 to 2020/2021
Under age 65	4%	2%
65 - 74	5%	2.5%
75 – 79	6%	3.0%
80 – 84	7%	3.5%
85 – 89	9%	4.5%
90 – 94	11%	5.5%
Age 95 and over	14%	7.0%

4.4 Valuations of Fund Assets at 30th June 2020

The Trustee needs to know the value of all assets held within the superfund as at the 30th June. Valuing listed shares is easy but for other assets such as real estate, paintings, antiques, etc. it is a touch more complicated (but if the need arises we can help you organise an online property valuation).

5. Superannuation Strategies for the end of the Financial Year

As the end of the financial year approaches, now is an ideal time to think about ways that you could grow your Superannuation. Here are some strategies you can consider that will assist you to streamline your finances whilst also seeking some generous tax breaks.

5.1 Individuals Claiming a Tax Deduction for Super Contribution

If you are making a personal super contribution and are intending to claim tax deduction within your Individual Tax Return, remember that you must lodge a Notice of Intent to Claim or vary a deduction for Personal Super Contribution form with your Super Fund before you lodge your Tax Return.

5.2 Adding to Super by Downsizing Your Home

(This is brought forward from the 2019 year as we have had considerable interest in this topic)

Just a reminder that from the 1st July 2018 new law kicked in that enables Australian retirees to sell the family home (think down size) and deposit \$300,000 for each of the husband and the wife into a Superannuation fund. The theory is that the \$300k/\$600k will enable the owners to stay at home longer. Sounds good, but as always there are some rules and things to weigh-up which include the following;

- 1) The Taxpayers must be 65 years or older and must have owned the family home (CGT main residence) for at least 10 years.
- 2) The Taxpayers are not required to buy another home. What's more, they can buy a more expensive home.
- 3) The contribution is a non-concessional contribution, but it does not count towards the non-concessional contribution cap) and there is no need to pass the Work Test (indeed there is no work test) nor is there any age limit..
- 4) But if you have reached the \$1.6m the \$300K must stay in the accumulation compartment (thus earnings are subject to 15% tax)
- 5) A bit of a downer is that the \$300K in the superfund will be included by Centrelink in both the Asset and Income tests. Plus, they are counted in determining eligibility for age care and home care facilities.
- 6) The contribution to Super must be made within 90 days of Settlement (Settlement is when you have received the proceeds of your home).
- 7) The big one to ponder is, will the downsize (after costs) leave you enough extra money to make it all worthwhile?

5.3 Changes to the Work-Test

The Federal Government also likes us more mature Australians. From the 1st July 2019 an individual aged over 65 but under age 75 is able to make voluntary contributions for one more year after they stop working. The small print is that the total value of all monies in superannuation as at the 30th June of the previous year must not exceed \$300,000 in total and you get to do it once in a lifetime.

Older Australians will benefit by the Proposed Work Test exemption age being extended from age 65 to 66. (The Work Test requires an individual to work at least 40 hours in any 30 day period in the financial year in order to make voluntary personal contributions.) The proposed change in age will allow individuals aged 65 and 66 from 1 July 2020, who previously didn't meet the work test, to contribute three years of after-tax contributions in a single year, meaning up to \$300,000 can be injected into an account with a balance of less than \$1.6 million in super (tax-free pension threshold).

5.4 Spouse Contribution Tax Offset

Contributions that are paid by a spouse into the superannuation account of the other spouse can be a useful way to grow your partner's Super balance and provide tax benefits in some cases. Assuming the fine print is negotiated; an individual can claim an 18% tax offset on contributions of up to \$3,000 made on behalf of a non-working partner (a Taxpayer can contribute more than the \$3,000 but the extra will not be tax-deductible and not provide any offset).

In order to receive the maximum tax offset of \$540 for the 2019-2020 financial year, you must contribute to your partner's super fund (either de-facto or married) by 30 June 2020 and your Spouse's income must be \$37,000 to receive the full offset. Once Spouse Income reaches \$37,000, the Tax Offset is progressively reduced until it reaches zero for those who earn \$40,000 or more. If you are contemplating a spouse contribution, you might like to contact us for more understanding. Further, it is proposed that from the 1st July 2020 the age limit for the spouse will increase to and including age 74. (and fine print, your spouse's total superannuation balance as at the 30th June of the previous financial year must not exceed \$1.6m.)

5.5 Early Release of Superannuation

The Federal Government has had a change of heart and produced law (which will have a temporary life) which allows for the early release of superannuation. In short individuals affected by COVID-19 Virus will be able to access up to \$10,000 of their superannuation before the 1st July 2020 as well as a further \$10,000 from the 1st July 2020 to the 24th September 2020. Again there is the obligatory small print in that to be eligible; you must comply with one or more of the following conditions;

<ul style="list-style-type: none">• You are unemployed
<ul style="list-style-type: none">• You are eligible for a parenting payment, jobseeker payment, special benefit or farm household allowance
<ul style="list-style-type: none">• You were made redundant on or after 1st January 2020
<ul style="list-style-type: none">• Your working hours were reduced by at least 20% on or after 1st January 2020
<ul style="list-style-type: none">• You are a sole Trader and your business was suspended or experienced a turnover reduction of at least 20% on or after 1st January 2020
<ul style="list-style-type: none">• Individuals can apply directly through the ATO making use of their my.Gov account

I can only say that whatever amount super saving you take out now, will not be there when you retire, so see the early withdrawal of super money not as a first resort, and rather see the withdrawal as a considered and "only if necessary" last resort.

6. ATO Targets in 2020 FY

The ATO is charged by the Federal Government with gathering tax revenue. Below are a couple areas where energised collection resources are going to be focused.

6.1 Claims for Motor Vehicle Running Costs- The log book method

A Taxpayer's expenses claim under a log book method for an income year is calculated by applying the cars business use percentage for the year to the deductible car expenses incurred during the year and to the depreciation of the car.

Probably the most tedious aspect in the claiming of car running expenses is the keeping of the log book but it is very important that when required to be kept, completely and correctly.

The reason: the ATO has been asking for logbooks to support the claims made in tax returns and the ATO has noted that a large percentage of the log books contain errors. We have set out in the table below the most common logbook errors and the correct treatment;

COMMON ERRORS	CORRECT TREATMENT
1) Log Book is not kept for the required 12 week period	The ATO position is that the Log Book must be kept for a continuous period of at least 12 weeks during the period the car was held. The 12 week period can overlap years as long as it includes part of the year for which the claim is made.
2) Using an old Log book: ie the log book is more than five years old and/or not keeping the odometer reading for every year (we always ask for these readings)	A log book only has a 5 year life (the good news is that you can keep a new log book for the puposes of gaining a more favourable outcome whenever you like).
3) Using an incomplete or inaccurate log book. Examples that have been provided include, incomplete descriptions of journeys, journeys were not consistent with employer records and the big one, entries for the journeys were not made at the end of each journey or as soon as possible afterward.	Certain information must be in the Log Book, including, the day the journey began and ended , the car's odometer reading at the start and the end of the journey and how many KMs the vehicle travelled, the business usage percentage for the journey and why the journey was made. The words "to see client" is not the best description as to purpose. The words "travel to East Perth to see Bob Brown re insurance claim is much better (there are conflicting views as to what is an adequate description of the words purpose of the journey).
4) Incorrect calculations of business use percentage; i.e. The business use percentage as established correctly by an existing log book being used in subsequent years but the employees circumstances had changed.	The moral from this failing is that a log book that is current but related to particular usage pattern and that usage pattern changes, then you need to complete another 12 week log book that tracks the newer and different usage pattern.
<u>5) Conclusion</u>	The ATO has the power and the right to insist that the log book be fully compliant. If the ATO can find a fault it can disallow the log book and if you are lucky allow you to use the cents per KM method. On the other hand if you are unlucky the ATO can disallow any claim and hit you with penalties. So the takeaway is to ensure that your log book is current, complete and that you can defend your entries.

6.2 Claims for Motorvehicle running costs using cents per KM

For Taxpayers who rely on the cents per KM Method (i.e. 68 cents for a total of 5,000 kms) it is not all easy sailing. The Tax Office has made it clear that although you do not need to keep a complying log book, you do need to be able to show that the car usage was work-related and if called on to do so, be able to produce a diary or similar document to show how you arrived at your total kms.

6.3 FBT and - Motor Vehicles that do not qualify as cars, (think utes and pickup trucks) (often referred to as a "Workhorse Vehicle) the ATO is tightening the FBT noose

You will be mindful that on the face of it, cars are subject to FBT but vehicles that can carry more than nine passengers or have a carrying capacity greater than one tonne (workhorse vehicles) are not subject to FBT nor subject to the strict substantiation rules that apply to cars.

The ATO is concerned that non-employee taxpayers such as tradespeople are making claims for vehicles with a carrying capacity greater than one tonne without adequate records being kept, such as;

- a diary or log book to verify the work related (or business) use of a vehicle and
- receipts to substantiate expenses incurred in respect of the vehicles (e.g. petrol expenses)

The following are **misconceptions** (wrongly believed) about Workhorse vehicles;

- That the ATO will blindly accept that the Workhorse vehicle is used 100% or close to 100% for income – earning purposes.
- That as the logbook method of record keeping is not required to be used, (and cannot actually be used) there is no requirement to be able to substantiate the running costs with receipts nor a log book.
- That claims for such costs as fuel & oil can be made based on reasonable estimates utilizing such data as average fuel costs, total distance travelled and fuel consumption.

So the ATO now wants to make its position clear, and that position is; in the event of an Audit of the expenses associated with a taxpayer claiming for a Workhorse vehicle, the taxpayer can be required to provide the following records;

Records the ATO may expect in an ATO Audit or Review	
Records to verify the vehicle has been used for income earning purposes	<ul style="list-style-type: none"> Details of employment duties including the requirement to travel in your work role (e.g. travel to alternative places of work involving transporting 'heavy and or bulky equipment). A letter from the employee's employer (where appropriate) advising why the employee is required to use the vehicle in the course of carrying out their employment duties
Records to substantiate a deduction for motor vehicle expenses	<ul style="list-style-type: none"> Where the individual owns or leases the vehicle there will be the need to produce lease documents or vehicle purchase documents and registration papers. Details of how the claim was calculated, a description of each item and the amount claimed. Be able to demonstrate how expenses were apportioned i.e. logbook or diary in conjunction with odometer records And yep, receipts or other evidence such as bank statements and credit card statements to evidence the expenditures.

The conclusion has to be reached that claiming 100% of work/business usage of your "Workhorse" puts you in the ATO cross hairs especially where;

- You do not have access to another vehicle afterhours which would indicate that you are using the Ram Pickup Truck for private purposes and/or
- Your travel between home and work is not tax deductible (e.g. you are not carrying bulky goods or you are not an itinerant worker).

6.4 Matter of rental properties (the ATO) is ramping up its scrutiny

The ATO recently completed Audits of 300 rental properties and were concerned to find that of the 300 properties, 270 (90%) required adjustment. Tackling the problem with a sledge hammer, Assistant Commissioner Gavin Seibert advised that this year the ATO has made rental property deductions a top priority. Further, the Assistant Commissioner advised that the ATO will use a range of third party information including data from financial institutions, property transactions, rental bonds from all states and territories and online accommodation Booking platforms, in combination with sophisticated analytics tool to scrutinise every return (and the ATO will double the number of audits in the 2021 year).

So what is the ATO looking for	Example
<ul style="list-style-type: none"> Interest deductions not being correctly apportioned. In essence claimed but were for private purposed. 	<ul style="list-style-type: none"> Loan moneys were drawn down on a redraw facility and used partly for private purposes such as a new car, boat or a holiday. Or where a loan relates to a holiday home that is not available for rent.
<ul style="list-style-type: none"> Wrongly classifying Capital works i.e. (Improvements being claimed as a repair) 	<ul style="list-style-type: none"> Claiming the cost of a new veranda as a repair when it is a capital Improvement.
<ul style="list-style-type: none"> Still claiming travel and inspection costs (disallowed 	<ul style="list-style-type: none"> Disallowed from the 1st July 2017

from 1 st July 2017)	
<ul style="list-style-type: none"> • Omitted Income and over-claimed deductions 	<ul style="list-style-type: none"> • This was found to be common in accommodation sharing rentals such as Airbnb

6.5 Helping you and us dodge a bullet

National Tax & Accountants Association Ltd (NTAA) of which we are members have devised a checklist that we/you will complete for rental properties when preparing the 2020 Tax Returns (we have included a copy of the “2020 Rental Property Details Form” on page 17 for your early reference). The thought is that if we can have a copy of the checklist duly completed, all of us will have a better understanding of the rental property activity and chance for an error will be significantly reduced.

7. The relationship between of Death, Superannuation and the Taxman

How are Superannuation Death Benefits Taxed?

In a perfect world, the day before you die, you would draw out all of your superannuation and put the money into your own name. The reason for clearing out your superfund is that, if you do not, and your fund monies go to a beneficiary (other than a dependant), the Taxman is going to want to share your legacy along with your beneficiaries. When it comes to how the super death benefit is paid out, there are specific tax implications which affect the amount that your nominated beneficiary will receive and get to keep.

Where Superannuation is paid out after an individual has passed to the next world, it is generally split up into two components; taxable and tax-free. The tax-free portion of a super death benefit is tax exempt and can include payments of after-tax contributions and government co-contributions. While the taxed component (i.e. those components that have been taxed in the fund) is primarily made up of employer contributions, personal contributions (when a tax deduction is claimed) and salary sacrificed contributions.

Upon receiving a super death benefit, the amount of tax the beneficiary will be required to pay will depend upon a number of considerations.

These include:

- The deceased person’s age at the time of their passing,
- If the superfund has already paid all tax owing on the taxable component
- Whether the income stream is an account-based or a capped defined benefit income stream
- Whether the dependant of the deceased individual relied on the deceased for their financial support
- If it is monies are paid out in one payment or as an income stream

The Australian Tax Office (ATO) does not require the beneficiary to pay any tax on the taxable component of a super death benefit which you receive when you are a dependant of the deceased individual and receive the payment as a lump sum. However, varying rates may apply (depending upon the above considerations) if the beneficiary accepts the balance of the entitlement as an income stream.

In cases, where the beneficiary is not a dependant of the deceased person, the beneficiary will receive the balance of the benefit in one payment. The taxable component of the amount will be taxed at the marginal tax rate applicable to the beneficiary. However, the rate may be reduced providing that the beneficiary is eligible for tax offsets (so for easy figuring, think 15% to 17% is going to go to the Taxman).

8. Information for Individuals

There will be several changes made to the treatment of Individual Tax matters in the 2019-2020 Year including;

8.1 2020 Individual Tax Rates (no budget, no change from 2019FY)

<u>Taxable Income</u>	<u>Tax on this Income</u>
0 - \$18,200	Nil

\$18,201 - \$37,000	19c for each \$1 over \$18,200
\$37,001 - \$90,000	\$3,572 + 32.5c for each \$1 over \$37,000
\$90,001 - \$180,000	\$20,797 + 37c for each \$1 over \$90,000
\$180,000 and over	\$54,097 + 45c for every \$1 over \$180,000

(**excluding the Medicare levy of 2%)

8.2 2019-2020 Repayment Income Thresholds and Rates for ‘HELP’ Education Loans

<u>Repayment Income</u>	<u>Repayment Rate</u>
Below \$45,881	Nil
\$45,881 – \$52,973	1.0%
\$56,152 – \$56,151	2% .0%
\$64,307 – \$59,521	2.5%
\$59,522 – \$63,092	3.0%
\$63,092 – \$66,877	3.5%
\$66,878 – \$70,890	4.0%
\$70,891 – \$75,144	4.5%
\$75,145 – \$79,652	5.0%
\$79,652 – \$84,432	5.5%
\$84,433 and so on	6.0%-----
\$134,537 and above	10.0%

8.3 Home Office Expenses

For those of you working from home during these unusual days the Tax Office has a special “gift” just for you. The gift is in the form of a deduction where it will be allowed for individuals to claim home office expenses using a ***“Shortcut Method” during the period from the 1st March 2020 to at least the 30th June 2020.*** The Tax Office may extend the period but that depends on when work patterns return to normal.

In general to claim for home office expenses, you must have spent the money, the expenses must be directly related to your earning income and you must keep a record. If your employer has reimbursed the expenses to you, you cannot claim a deduction. You can claim expenses such as phone and internet expenses, stationery, electricity expenses (pro-portion the expenses to the work area of your home you dedicate for work. You cannot claim expenses such as rents, mortgage interest, rates or other general household items (eg. coffee, milk etc.)

You can choose one of the three methods to claim home office expenses for 2020 Financial Year:

1. **Actual Cost Method** – claim the actual work-related expenses. You must keep a diary for 4 weeks for the number of hours you work from home, keep receipts for phone & internet expenses, stationery. Work out the cost of heating and electricity based on the cost per unit of power used, average units per hour and number of hours you worked from home during the year.
2. **Fixed rate Method** – 52 cents for each hour you work from home for electricity, expenses, cleaning and heating expenses. You must keep a diary for 4 weeks. You must also keep receipts for phone & internet expenses, stationery expenses.
3. **Shortcut Method (COVID- hourly rate)** – claim 80 cents for each hour you work from home due to COVID-19 (for the period from the 1st March 2020 to the 30th June 2020). ***You must keep the timesheets, diary or rosters for the number of hours you work from home.*** To use this shortcut method, you do not need to have a separate area of your home set aside for working. This shortcut method rate covers **ALL deductible expenses** such as electricity, cleaning expenses, phone, internet and stationery.

8.4 Other Deductions & ATO App – myDeduction

Where you may wish to claim other deductions, be that for stationery, fuel or the cost of a compulsory uniform etc. you must keep the receipts for every deduction you wish to claim that detail what was purchased, its cost, and the date of purchase. Though Bank Statements may supplement your claim for a deduction alongside the relevant receipt, they cannot be used as sole documentation to support a deduction.

For your convenience, there is an ATO App called “[myDeductions](#)” that you can download from Google Play or AppStore to your smart device. [myDeductions App](#) helps taxpayer to keep tax records in a fast and easy way throughout the year. It records work-related expenses for employee, vehicle trips and photos of your invoices and receipts.

9. Division 7A ITAA 1936 and the Taxman cometh: If you trade in a company, this one is really important and was touched on last year.

Your Proprietary Company, (ABC Pty Ltd) makes profits, pays tax at 27.5%, (soon to be 26%) and in due course pays you a dividend. In turn you include the dividend and gross it up with the value of the tax that has been paid by the company into your tax return. You pay tax on the grossed up dividend but are given a credit for the amount the ATO has paid at your personal tax rate. All good and the taxman is happy. But if you were to just reach in and take those profits from the company without recognising the amount as a dividend, you are in effect borrowing company funds (and to do that you will need a Complying loan agreement between you and the company). The act of taking out Company funds, other than as a dividend or as a complying loan, causes you to breach Division 7A of ITAA 1936 and that is not good. Division 7A is an integrity Division of the Tax Act that requires benefits/payments provided by Private companies to taxpayers to be taxed as dividends unless they the payments are structured as a Division 7A complying loan or where another exception applies.

In 2018 the Federal Government decided to widen the scope of Division 7A to include Unpaid Present Entitlements.

Unpaid Present Entitlements, think loans to shareholder or those related to shareholders, that have had their origins on a date before December 2009 have been allowed set in the Balance Sheets of Companies, but that is very likely to change in the near future and not for the better.

The hardening of the Government’s stance originally was scheduled to commence as of the 1st of July 2019, but as per the 2019-2020 Federal Budget it has been postponed until the 1st of July 2020. The Government’s line was that “delaying the start date was intended to allow the Government additional time to further consult with stakeholders and to refine the Government’s implementation approach.”

Cutting to the heart of the matter, in application, the changes mean that for loans from Pty Ltd companies to associates of those companies, the Government aims to ensure that the Unpaid Present Entitlements are either required to be repaid to the private company over time as a complying loan or the loan will be subject to tax as a dividend in the hands of the shareholder. The dividends will put tax revenue into Government coffers.

From 1 July 2020, the following measures were intended to be introduced;

- A self-correction mechanism to assist taxpayers to rectify inadvertent breaches of Division 7A promptly.
- Appropriate safe harbour rules to provide certainty and simplify compliance for taxpayers.
- Simplified rules regarding complying Division 7A loans, including loan duration (10-year complying loan to replace both 7 and 25-year loan terms), and the minimum interest rate being increased by more than 3% from housing rate to overdraft rate.
- Those companies who have Pre December 2009 Unpaid Present Entitlements (UPE) are in the crosshairs. We think the ATO wants these amounts to move to 10 year loans which will be repaid as P & I.
- A number of technical amendments to improve the integrity and operation of Division 7A and provide increased certainty for taxpayers.

With the big C-19 virus temporarily holding the Federal Government’s attention, this matter has gone quiet but rest assured with \$300b (give or take \$60b) of borrowed money either spent or committed to be spent the ATO will be looking for every dollar.

10. Financial Planning

There are items in this Newsletter that are of the nature of Financial Planning but none of which should be seen other than as General Advice. Just for completion and compliance the following should be noted;

Lane Taylor is a Director of L.P.R. Taylor Financial Services Pty Ltd of 5 Sayer Street, Midland WA 6056 and is an Individual Authorised Representative (No. 346050) of InterPrac Financial Planning Pty Ltd (AFSL No. 246638).

11. Conclusion

This Newsletter as with the operation of the office itself is made possible by the combined efforts the whole Team. For those of you who either by reading or skimming this Newsletter have got to the end, well done. Thank you for sharing it with us. If there is anything on which you would like further information, then please contact us either by email: info@lprtaylor.com.au or by telephone: (08) 9274 6944. Finally, copies of earlier Newsletters are on our Website at www.lprtaylor.com.au.

Please note this Newsletter should be taken as a guide only, and none of the comments contained in this letter are intended to be taken as advice, and this Newsletter is for the exclusive use of the clients of L.P.R Taylor & Associates Pty Ltd.

Kind regards,
Lane Taylor and the Team

12. How Can We Help You & Checklist

There was so much to tell and so little space to tell it. So by popular demand, we include an extra page for the checklist. We also set out below a page headed “HOW CAN WE HELP YOU” following by the checklist.

If you wake up in the middle of the night in cold sweat and say to yourself “I wish I could talk to someone about this commercial problem”, jot it down on the form and share it with us.

HOW CAN WE HELP YOU

Complete this form and fax / email it back to us. Our fax number is (08) 9274 3011 and email address is info@lprtaylor.com.au

Name: _____ Company: _____

Telephone: _____ Email: _____

ESTABLISH YOUR OWN BUSINESS

Business Structure (i.e. Sole Trader / Partnership / Company / Trust)

- Explain the difference of each business structure.
- Analyse the advantage and disadvantage of each structure.
- Help you to choose the best structure that suits you.
- Provide you guidance with your business plan.

Business Registration

- Company Formation and prepare all required documents that the ASIC needs.
- Business Name Registration.
- Apply for A.B.N. & T.F.N.
- GST Registration.
- Fringe Benefits Tax Registration.
- Payroll Tax Registration.

Buying an Existing Business

- Analyse Seller’s Financial Statements.
- Valuation of Goodwill.
- Calculate the amount of Duty.
- Valuation of Inventory.

Other Services

- Preparing an effective business plan.
- Prepare financial reports for bank.
- Prepare budget for cash flow statement.
- Provide support on accounting systems.
- Explain what your tax and legal obligations are (including Workers Compensation Insurance, Wages, Superannuation, PAYG Withholding etc.)

I would like further information and advice on the following: (please tick)

- ☐ How I can improve my business performance and profitability.
- ☐ Better strategic planning for the future of my business.
- ☐ How your Company Secretarial services can offer me peace of mind.
- ☐ Making my estate tax-efficient for my heirs.
- ☐ Tax-efficient investments and savings.
- ☐ How will the Government **Budget affect me / my business?**
- ☐ Minimising capital gains tax legally.
- ☐ Retirement planning.
- ☐ I would like to know more about the following areas:

PRE-APPOINTMENT CHECKLIST 2019/2020

INDIVIDUAL DETAILS:

- ☐ PAYG Payment Summary - Employment Termination Payment
- ☐ PAYG Payment Summary – Superannuation Income Stream / Lump Sum
- ☐ Bank Statements / Passbooks (*Detailing Interest Earned*)
- ☐ Dividend and Re-investment Statements
- ☐ Partnership & Trusts Taxable Distribution Statements
- ☐ Share Trading Statements (*i.e. Buy & Sell Contracts*)
- ☐ Foreign Income
- ☐ Rental Property Income & Expenses
- ☐ Rental Property Depreciation Report
- ☐ Buying or Selling Contract / Final Settlement Statements/ Offer & Acceptance Forms Re; Purchase / Sale of Property
- ☐ Details of Personal Property Sold (if acquired for \$10,000 or more)
E.g. Antiques Jewelry Art etc.
- ☐ Receipts for Work-Related Expenses
- ☐ Motor Vehicle Logbook
- ☐ Travel Diary / Business / Private Use Diary
- ☐ Telephone/ Internet Logbook (12 weeks every year)
- ☐ Receipts for Donations
- ☐ Private Health Insurance Statement
- ☐ Notice of Intent to Claim or Vary a Deduction for Personal Super Contributions
- ☐ Zone & Overseas Forces Rebate
Location: _____
No. of Days: _____
- ☐ Medicare Exemption / Reduction Certificate
- ☐ Family Information (Spouse's & Child's - Name, TFN, DOB & Taxable Income)

BUSINESS DETAILS:

- ☐ Cashbook / USB (e.g. MYOB, Reckon or Xero file)
- ☐ Bank Statements
- ☐ Bank Reconciliation Statements
- ☐ Loan Statements
- ☐ Loan, Lease, Chattel Mortgage & Hire Purchase Agreements
- ☐ Invoices for New Assets
- ☐ Details of Income Invoiced, but not received at 30th June (Debtors)
- ☐ Details of Expenses Invoiced, but not yet paid at 30th June (Creditors)
- ☐ Valuation of Stock at 30th June
- ☐ Details of Livestock Numbers:
Sales: _____
Killed (Rations): _____
Deaths: _____
Closing Stock: _____
Purchases: _____
Births: _____
- ☐ Superannuation Clearing House Report
- ☐ Motor Vehicle Details & Logbook(s)
- ☐ Motor Vehicle Odometer Readings at 31st March & 30th June
- ☐ Buying or Selling Contract / Final Settlement Statements/ Offer & Acceptance Forms Re: Purchase/Sale of Business
- ☐ Personal Services Income (if applicable)
- ☐ Insurance Invoices & Policy Statements

NTAA 2020 RENTAL PROPERTY DETAILS FORM

(Reference: National Tax & Accountant's Association Ltd (NTAA) Tax School Day 1 May 2020)

2020 Rental Property Details Form		
Personal details and property details		
Taxpayer's Full Name		
Tax File Number		
Date of birth		
Taxpayer's contact details	Mobile:	Other:
	Email:	
Address of property		
When was the property first purchased, and was it new or second-hand? ⁽⁰⁾		
How many other rental properties do you own outright or jointly?		
What is your ownership interest in this property (e.g., 100%, 50%, etc.)?		
Was the property rented at any time through Airbnb or under a similar accommodation arrangement?	Yes/No	
Number of days the property was rented (or genuinely available for rent – e.g., advertised for rent) at market rates during the year ⁽¹⁾	Yes/No	
Was only part of the property rented at any time during the year (e.g., one room was rented to a tenant/boarder with access to general living areas)? ⁽²⁾	Yes/No	
Did you dispose of/replace any depreciable assets in the property during the year (e.g., carpets, blinds, a hot water system or an air conditioner)?	Yes/No	

Rental income details – please provide evidence ⁽³⁾	Yes/No	Unsure
A. Did you receive rental income from this property during the year?		
B. Did you receive any other income in relation to this property?		
<ul style="list-style-type: none"> Did you receive any part of the rental bond (where a tenant defaults on their rent or for damage to the property requiring repairs)? 		
<ul style="list-style-type: none"> Did you receive any insurance receipts for loss of rent or for damage to the property requiring repairs? 		
<ul style="list-style-type: none"> Did you receive a letting or booking fee? 		
<ul style="list-style-type: none"> Did you receive a Government rebate that relates to the purchase of a depreciable asset (e.g., an energy saving appliance, such as a solar hot water system)? ⁽⁴⁾ 		
Rental expense details – please provide evidence	Yes/No	Unsure
C. Did you incur (and have evidence of) advertising expenses related to finding a new tenant?		
D. Did you incur (and have evidence of) any body corporate fees ?		
<ul style="list-style-type: none"> Do any body corporate fees relate to contributions made to a special purpose fund to pay for capital works (e.g., improvements)? ⁽⁵⁾ 		
<ul style="list-style-type: none"> Did you make a special contribution for capital works which was paid from a general purpose sinking fund? ⁽⁵⁾ 		
E. Did you incur (and have evidence of) any borrowing expenses (e.g., loan establishment fees, stamp duty on the mortgage, and mortgage broker fees) in respect of a loan that relates to the property?		
F. Did you incur (and have evidence of) any cleaning expenses in relation to the property (e.g., to prepare the property for new tenants) ?		
<ul style="list-style-type: none"> Were any cleaning expenses reimbursed by an outgoing tenant (e.g., by retaining part or all of a rental bond)? 		
G. Did you incur (and have evidence of) any council rates in relation to the property? ^{(1) (2) (6)}		
H. Depreciation – Do any of the following apply to you? ⁽⁷⁾		
<ul style="list-style-type: none"> The property was acquired by you before 9 May 2017 and was used for rental purposes at some time during the 2017 income year. 		
<ul style="list-style-type: none"> The property was acquired by you as a new residential property after 9 May 2017. 		
<ul style="list-style-type: none"> You acquired new depreciable assets for the property after 9 May 2017. 		
<ul style="list-style-type: none"> You are carrying on a business of renting residential properties. 		
I. Did you incur (and have evidence of) any gardening/lawn mowing expenses in relation to the property?		

J. Did you incur (and have evidence of) any building insurance premiums in relation to the property? ⁽¹⁾ ⁽²⁾ ⁽⁶⁾		
K. Did you incur (and have evidence of) any interest expenses on moneys borrowed in relation to the property? ⁽¹⁾ ⁽²⁾ ⁽⁶⁾		
<ul style="list-style-type: none"> Has any part of the outstanding borrowing of the loan being used for private purposes (e.g., to pay for living expenses, to buy a car, to pay for a holiday, or to undertake repairs to your home)? ⁽⁸⁾ 		
<ul style="list-style-type: none"> Has any part of the outstanding borrowing being used for other income-earning purposes (e.g., to buy dividend-earning shares)? 		
<ul style="list-style-type: none"> Were interest expenses incurred during the year while the property was being constructed, while the property was vacant, and while the property was being repaired and/or renovated? ⁽⁶⁾ 		
Rental expense details – please provide evidence	Yes/No	Unsure
L. Did you incur (and have evidence of) any land tax expense in relation to the property?		
M. Did you incur (and have evidence of) any legal expenses in relation to the property (e.g., legal fees incurred to evict a tenant, to recover loss of rent and/or to defend objections from neighbours)?		
N. Did you incur (and have evidence of) any pest control expenses (e.g., the eradication of termites) in relation to the property?		
O. Did you incur (and have evidence of) any property agent fees (or commission) in relation to the property?		
P. Did you incur (and have evidence of) any expenditure on the following?		
<ul style="list-style-type: none"> Maintenance work to any part of the property (e.g., cleaning or servicing a hot water system, a cooling system or a heating system, and changing batteries in and testing a smoke alarm). 		
<ul style="list-style-type: none"> Rectifying damage or deterioration to the property, such as: ⁽⁹⁾ <ul style="list-style-type: none"> – repairing a broken window or resealing a leaking window; – replacing broken bathroom tiles; – repainting peeling or dirty internal walls; – replacing rotten floor boards and/or polishing floorboards; – replacing damaged or worn out curtains, blinds and carpets; and 		
<ul style="list-style-type: none"> Did any of the above work relate to damage or deterioration that existed at the time the property was purchased? ⁽⁹⁾ 		
Q. Did you incur (and have evidence of) any capital works expenditure (i.e., basically, improvement expenditure), such as: <ul style="list-style-type: none"> replacing the entire kitchen of the property; installing a new electrical switchboard to the property; replacing a timber window frame with an aluminium frame; 		

<ul style="list-style-type: none"> replacing an existing draped shower screen with a new fixed glass shower screen; adding an extra bedroom or bathroom to the property; and adding a balcony to the property. 		
R. Did you incur (and have evidence of) any stationery, telephone and postage expenditure in relation to the property?		
S. Did you undertake any travel in relation to the property in the course of carrying on a business of renting residential properties? ⁽¹⁰⁾		
T. Did you incur (and have evidence of) any water charges in relation to the property?		
U. Did you incur (and have evidence of) any other rental expenses in relation to the property?		

(0) Generally, where a second-hand residential property was acquired **after 7.30pm AEST on 9 May 2017** ('after 9 May 2017'), depreciation (or decline in value) claims are **not** available in respect of depreciable assets in the property at the time of purchase. However, depreciation claims will continue to be available:

- in respect of any **new depreciable assets** acquired after the acquisition of the property; or
- where the taxpayer is **carrying on a business** of renting residential properties.

(1) Broadly, where a rental property is **not** actually rented (nor genuinely available for rent) for the entire income year, deductions for **holding costs** (e.g., mortgage interest, rates, building insurance and land tax), **depreciation** (decline in value) and **capital works** (e.g., at the rate of 2.5%) **must be apportioned**. That is, these deductions can only be claimed for the period that the relevant property was actually rented to tenants or genuinely available for rent (e.g., listed with an agent for genuine rental at market rates).

(2) Where **only part of a property** was rented at any time during the income year (e.g., a taxpayer's residence is partly rented to tenants through Airbnb, or to a boarder, such as where one room in a home is rented with shared access to general living areas), deductions for expenses that do not solely relate to rental income (including Airbnb income) must be **apportioned**. These expenses include holding costs, capital works, rates, building insurance, utility costs (e.g., gas and electricity), and depreciation of furniture and appliances used in shared areas of the home.

(3) Evidence would include monthly (and annual) rental statements from a letting agent, bank statements, and any other documentation that evidences any other rental-related income received during the year.

(4) Where a landlord receives a Government rebate in respect of the purchase of a depreciable asset (e.g., an energy saving appliance), the rebate received is generally considered to be an assessable recoupment. Refer to S.20-20 of the ITAA 1997 and TD 2006/31.

(5) In the ATO's publication "**Rental properties 2019**", body corporate fees or contributions in these circumstances are **not** deductible to a landlord. However, these fees or contributions could give rise to a building write-off claim for capital works under Division 43 of the ITAA 1997 (e.g., at the rate of 2.5%).

(6) The new 'vacant land' rules may affect the deductibility of holding costs (e.g., interest expenses, council rates, building insurance and land tax) incurred in relation to a rental property (particularly a residential rental property that has been constructed or substantially renovated) **from 1 July 2019**. Refer to pages 131 to 142.

(7) In any of these cases, a deduction for depreciation (or decline in value) will generally be available in respect of the depreciable assets in the property.

(8) Interest expenses incurred are **not** deductible to the extent to which the loan (that relates to the rental property) has been used for private purposes.

(9) Any expenditure that involves an improvement to part of property is **not a deductible 'repair'**. In this case, the expenditure could be eligible for the capital works (or building write-off) concession (e.g., at 2.5%) under Division 43 of the ITAA 1997. Refer to TR 97/23.

Furthermore, to the extent that repairs to the property relate to defects, damage or deterioration that was in existence at the time the property was acquired (i.e., to the extent the repair is an initial repair), **no** deduction is available. Refer to TR 97/23.

- (10) Travel expenditure incurred by an individual **from 1 July 2017** (e.g., car expenses, taxi and ride-sourcing fares, airfares, meals and accommodation in respect of overnight travel), in respect of a residential rental property are **no longer deductible**, irrespective of when the property was acquired. However, this deductibility restriction does **not** apply to an individual who incurs travel expenditure in the course of carrying on a business of renting residential rental properties. Refer to S.26-31.

Where the restriction in S.26-31 applies, it will deny travel claims in respect of the following:

- **Travel to and from a particular property** (e.g., travel to inspect the property and/or to prepare the property for incoming tenants, and travel to undertake repairs to the property); and
- **Travel related to a particular property**, such as travel to a real estate agent's office to discuss matters about the property, travel to attend a body corporate meeting and travel to visit a hardware store when attending to repairs in respect of the property.