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2021 FINANCIAL YEAR END NEWSLETTER

Here we are again sliding into the end of the 2021 Financial year. By our reckoning, this 2021 Year makes this annual Newsletter Number 37. The Federal 2021 Budget was delivered on the 11th May 2021. It was generally accepted as a well-crafted Budget, with most of the changes in until the 2022 Financial year. In any event, we have relayed some of the high points.

Our recent ATO webinar focused on the mistakes that the ATO finds all to prevalent in individual tax returns. I am not sure when the ATO is going to cease calling the overclaims mistakes and commence to call them fraud but the day will come as there is considerable tax revenue lost at individual tax return level by exaggerated claims. We have included a section highlighting some of the does and dont's associated with personal Tax return preparation.

It is generally recognised, that the Federal Government has steered us through the worst of the economic storm brought about by the Covid pandemic. For most businesses, the elixir was money borrowed by the Federal Government and injected into the economy via such initiatives as Job Keeper, Job Seeker and Cashflow Boost. The Federal Government, in its May 2021 Budget avoided increasing taxes on the basis that, to increase would be counterproductive. However, we can confirm that the ATO is stepping up the pressure on Tax Agents to encourage our clients to keep the lodgements of Tax Returns and BAS up to date so that the revenue being raised under existing tax law can keep flowing to the Federal Government.

Employee expense claims are again in the firing line, as are expenses incurred by rental property owners. The ATO, continues to tighten compliance by processing and matching information. As we have highlighted, information requirements by Big Bertha (the ATO Computer) have been expanded and not contracted.

For employers, you need to be mindful that from the 1st July 2021 you will need to adjust your wages software to reflect that the rate of Super Guarantee increases from 9.5% to 10%. Plus, be aware that it is the stated intention that for Superannuation Guarantee, from the 1st July 2022 will also be paid on employee wages where those wages are less than $450 per month.

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 affect you. Thus, we hope 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 a "List of Contents" 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.

List of Contents

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

2021Year-end Tax Planning

As the year-end looms, it is important to be aware of that the year-end tax saving matters must be in place before you go to bed on the 30th June 2021 (falls on a Wednesday this 2021 financial year). Also, be aware that the tax savings window of opportunity will not be there as you wake up on the 1st July 2021.

1. Some things for your end of year Checklist;

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

You should 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 receive a tax deduction for any remaining book value of scrapped assets.

1.2 Capital Losses

Selling unperforming 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 2021, provided the debt has 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 greater than 12 months.

1.6 Trust Distribution Resolutions

For all of you Trustees of Discretionary Trusts, we will soon 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 2021.

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 yet 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 2021. The process can be as simple as deferring the issue of invoices for work that is not 100% complete.

1.9 Self Managed Superannuation—the need for an Investment Strategy

We remind you that as the Trustee you are obligated to review the fund's investment Strategy every year in June.

2. Some Interesting Bits

Assume that you are in business, and the 30th of June 2021 is rapidly approaching. You have profits and also need additional capital assets to assist your business in carrying on. You would like to purchase and claim the cost of additional capital assets. What are your options?

2.1 Instant Asset Write-Off Threshold to 30th June 2021 (Corona Virus related)

The instant asset write-off concession of $150,000 has been amended and extended to the 30th June 2022. (but be mindful that for cars special rules apply in that the maximum claim is up to the depreciation limit for cars ie for 2021 the amount is $59,136), (for the 2022 year it will be $60,733). The write-off will apply to new and used assets. Further, you need to be mindful that the Federal Government will not forget its generosity, as when the asset(s) is sold, the proceeds that you receive must be included in your Assessable Income and will be subject to tax.

Then there is the Temporary Full Expensing (TFE)

Reviewing the dates above, you will note that Instant write off initially related to assets that were purchased by the 31st December 2020. The Federal Government was so confident of the economic wisdom of allowing the write-off of assets as a business incentive that it legislated an additional/ substitute write-off mechanism known as Temporary Full Expensing (TFE). TFE is intended to allow for a deduction for assets that were purchased between 6th October 2020 to the 30th June 2022.

As to the fine print, TFE allows a Deduction for assets and write off of the balance of the small business pool where;

a) The business portion of the cost on new eligible depreciating assets for businesses with a aggregated turnover under $5 billion.

b) The TFE also applies to second hand assets in a business with an aggregated turnover under $50M.

c) The balance of a small business pool at the end of both the 2021 and 2022 income years can be fully expensed where the businesses turnover is under $10m.

https://www.ato.gov.au/Business/Depreciation-and-capital-expenses-and-allowances/Temporary-full-expensing/

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

In addition, the Government introduced a 15 month investment incentive (from the 12th March 2020 through to the 30th June 2021) to support business investment and economic growth over the short-term. The support came in the form of accelerating depreciation deductions. Businesses with an aggregated turnover of less than $500 million are 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.

For small business with an aggregated turnover of less than $10m you can deduct an amount equal to 57.5% rather than the normal 15%. Thereafter the write off reverts back to 30% in the general small business pool.

2.2 2021 Depreciation Incentive Summary

To make it easier to understand – we have set the information out in the following table:

Instant Asset Write-Off		
	Small Business Entities	**Other Business Entities**
Aggregated turnover	Under $10 million	$10 - $500 million
Threshold	Up to $150,000	Up to $150,000
Qualifier	New and second-hand assets. Assets first used or installed ready for use between 12 March 2020 until 30 June 2021 and purchased or installed by 31 December 2020	New and second-hand assets. Assets first used or installed ready for use between 12 March 2020 until 30 June 2021 and purchased or installed by 31 December 2020
Car	Car limits apply 2021FY - $59,136 2022 FY - $60,733	Car Limits apply 2021FY - $59,136 2022 FY - $60,733
Temporary Full Expensing (TFE)		
	Small Business Entities	**Other Business Entities**

Aggregated turnover	Under $10 Million	$10 - $50 million	$50 million - $5 billion
Threshold	No Threshold	No Threshold	No Threshold
Qualifier	New and second-hand assets. First used or installed ready between 7.30pm AEDT on 6 October 2020 and 30 June 2022	New and second-hand assets. First used or installed ready for use between 7.30pm AEDT on 6 October 2020 and 30 June 2022	New assets only. First used or installed ready for use between 7.30pm AEDT on 6 October 2020 and 30 June 2022
Car	Car limits apply 2021FY - $59,136 2022FY - $60,733	Car limits apply 2021FY - $59,136 2022FY - $60,733	Car limits apply 2021FY - $59,136 2022FY - $60,733
Opting out	No opt out for business using simplified depreciation rules.	Can choose to opt out TFE for an income year on asset-by-asset basis. The choice is un-changeable	Can choose to opt out TFE for an income year on asset-by-asset basis. The choice is un-changeable

Backing Business Investment(BBI)/Accelerated Depreciation		
	Small Business Entities	**Other Business Entities**
Asset Cost	Under $10 million	Under $500 million
Threshold	No Threshold for assets greater than $150,000 or more (Instant write-off applies for assets less than $150,000)	No Threshold
Qualifier	First used or installed on or after 12 March 2020 until 30 June 2021	First used or installed on or after 12 March 2020 until 30 June 2021
Car	Car limits apply 2021FY - $59,136 2022FY - $60,733	Car limits apply 2021FY - $59,136 2022FY - $60,733
Opting out	No opt out for business using simplified depreciation rules.	Can choose to opt out TFE for an income year on asset-by-asset basis. The choice is un-changeable
First year rate	57.5%	50%
	For later years, general small business pool rates apply (30%)	For later years (remaining 50% x effective life rate)

2.3 Base Rate Entities (the Company Tax rate is on track further reduce;

Companies with an aggregated turnover of below $50 million will have their tax rate lowered to 25% by 2021-2022. The 2021 next step in the downward rate journey saw the Company tax rate for eligible companies to be 26% for the 2021 year.

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

3.1 Concessional & Non-Concessional Contributions

Make no mistake, the Federal Government and those who run our nation's finances want you to hold your money in superannuation for the sole purpose of accumulating 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 mechanisms at play controlling on one hand, how much you can contribute to ultimately on the other hand, 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% (soon to be 10%) Super Guarantee, Salary Sacrifice amounts, and any Personal contributions which you claim as a tax deduction.

For the 2021 year, the concessional contribution cap is $25,000, however like much of Tax Law there are exceptions. The major 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 2020 year you only contributed $10,000, then in the 2021 year you are able to contribute and claim $40,000 (providing, in the really fine print, that the balance of your fund at the end of the prior year was 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 not for the unused concessional cap be included, any year where you concessional contribution exceeds $25,000, the excess contribution is taxed in your 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 no-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 for the 2021 year. 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 say, for the 2021 year, you could contribute $300,000 as a Non-Concessional Contribution.

For the 2021 year, once you reach 67, when making a non-concessional contributions, the law becomes 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 67-74, you must have be working for a minimum of 40 hours in any 30 consecutive days 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%)

And looking forward just a bit further.
From the 1st July 2021, the non concessional contributions will increase from $100,000 to $110,000. Members under 65 years may be able to make non-concessional contributions of up to three times the annual non-concessional contributions cap in a single year.

And looking still further to the 1st July 2022; the May 2021 Federal Budget has come to play with some changes that will apply to the Work Test from the 1st July 2022. Put simply, (assuming all passes through the Federal Parliament, the work test will be abolished on the 1st July 2022 for non concessional contributions and for salary sacrifice contributions. (but per the fine print. The work test will still apply for personl deductible contributions by those aged 67-74.

3.2 With Superannuation contributions, timing is crucial;

Fundamental—we suggest that you dispatch your superannuation to the respective fund no later than the 18th June 2021. The early date will assist to ensure that your superannuation contributions are both made and nested into your superfund bank account by the 30th June 2021 (it is Wednesday) .

3.3 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 acted with wisdom in the 2020 year and reduced the minimum percentage rate by 50% for both the 2020 and 2021 financial year.

For the 2021 year, the pension amount is calculated on your Member's balance, as at the 1st July 2020. The balance would have been advised by us, to you as part of our 30th June 2020 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"

Age	Otherwise the 2020 Standard Percentage Factor	Temporary Rate 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%

3.4 Valuations of Fund Assets at 30th June 2021

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).

4. 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 in streamlining your finances whilst also seeking some generous tax breaks.

4.1 Individuals Claiming a Tax Deduction for Super Contribution

If you are making a personal super contribution and you plan to claim tax deduction within your 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.

4.2 Adding to Super by Downsizing Your Home

(This is brought forward from the 2020 year as we have had considerable interest in this topic)

Just a reminder that from the 1st July 2018 new law kicked in that enabled Australian retirees to sell the family home (think downsize) 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. (note in the May 21 Budget it was suggested that the eligibility age may be reduced from 65 to 60)
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?

4.3 Spouse Contribution Tax Offset

As with the 2020 year contributions that are paid by a spouse into the superannuation account of the other spouse can be a beneficial method to grow your partner's Super balance and provide tax benefits in some cases. Assuming the fine print is negotiated; an individual can claim a 18% tax offset on contributions of up to $3,000 made on behalf of a non-working partner (a Taxpayer spouse 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 2020-2021 financial year, you must contribute to your partner's super fund (either de-facto or married) by 30 June 2021 and your Spouse's income must be $37,000 or less to receive the full offset. Once your Spouse's 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, there is a matter of age. Your receiving spouse must be under the age of 67. –Unless your spouse can pass the Work Test in which case your spouse can be between the ages of 67 and 74. And some more of the really fine print your spouse's total superannuation balance as at the 30th June year of the previous financial year must not exceed $1.6m.)

4.4 Contribution Splitting With your Spouse

The current concessional cap is $25,000 (soon to be $27,500) per annum. Assume the husband has a $1.5m in his Member’s balance and the wife has say $200k in her member’s balance. Say in the 2021 year the husband contributed the full $25,000 into his superfund. In hindsight, the husband decides he should have split the prior year’s contribution and sets about having his fund transfer (up to 85%) of his $25k contribution to his wife's superannuation fund. The action is known as splitting superannuation contributions with a spouse. Some of the benefits and advantages of contribution splitting include;

a) If you split your concessional contributions with say an older spouse, as a family unit you may get access to the member's funds earlier than if all were held by the younger spouse.
b) If your spouse is younger, then by loading up the younger spouse, the older spouse may be able to access more age pension.
c) If you or your spouse are reaching the near $1.6m Balance cap, by diverting contributions to the member with the lowest balance the chances of getting more than the $1.6 into super is increased.

The Balance Cap set to be indexed from the 1st July 2021

If you have been fortunate and thrifty enough to be nearing a superannuation balance of $1.6m, the good news is that your Balance Cap (ceiling) will be increased from $1.6m to $1.7m.

Sadly a members Balance Cap will not be increased if at any time before the 1st July 2021, the balance of the Transfer Balance account met or exceeded $1.6m

5. ATO Targets in 2021 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.

5.1 Claims for Motor Vehicle Running Costs- The log book method (we brought this forward from the 2020 year)

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 logbook but it is very important that when required to be kept, the logbook is completed and done so 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 logbooks 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 Logbook: ie the logbook 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 logbook for the purposes of gaining a more favourable outcome whenever you like).
3) Using an incomplete or inaccurate logbook. 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 Logbook, 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 describing the 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.
5) Conclusion	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 logbook 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.

5.2 Claims for Motorvehicle running costs using cents per KM

For Taxpayers who rely on the cents per KM Method (i.e. 72 cents for a total of 5,000 kms) it is not all plain sailing. The Tax Office has made it clear that although you do not need to keep a complying logbook, 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.

5.3 FBT and - Motor Vehicles that do not qualify as cars, (think utes and pickup trucks) (often referred to as a "Workhorse Vehicle) the ATO has tightened the 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;

a) That the ATO will blindly accept that the Workhorse vehicle is used 100% or close to 100% for income-earning purposes.
b) 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.
c) That claims for such costs as fuel & oil can be made based on reasonable estimates utilising such data as average fuel costs; total distance travelled and fuel consumption.

The ATO, has made 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	• Details of your 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	• 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 deduction claim was calculated, a description of each item and the dollar 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;

a) You do not have access to another vehicle after hours which would indicate that you are using the Ram Pickup Truck for private purposes and/or
b) 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).

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

In the 2021 year the ATO has doubled its audit activity for rental properties. As a reminder, for the 2020 year the Audits resulted in (90%) of all the target returns, requiring adjustment.

So what is it that the ATO looks for	Example
• Interest deductions not being correctly apportioned. In essence, interest was claimed but often the loan was for private purposes.	• 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 related to a holiday home that was is not available for rent.
• Wrongly classifying Capital works i.e. (Improvements being claimed as a repair)	• Claiming, say the cost of a new veranda as a repair when it was a Capital Improvement.
• Still claiming travel and inspection costs (disallowed from 1st July 2017)	• Disallowed from the 1st July 2017
• Omitted Income and over-claimed deductions	• This was found to be common in accommodation sharing rentals such as Airbnb

5.5 Helping you and us dodge a bullet

Courtesy of National Tax & Accountants Association Ltd (NTAA) we have again attached a checklist on page 17 for your 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 any chance of making an error will be significantly reduced.

New onus on Tax Agents for the 2021 year—we are required to establish the following;

1	**To ensure all rental revenue is quantified (even the cash from the relatives)**
2	**What is your ownership Share.**
3	**How you use your rental property to ensure the correct apportion for Private use**
4	**Whether the property is newly purchased, new to the rental market or has an established history**
5	**Verification (ie invoice supported) of all expenses**

6. What else will be of interest to the Taxman for the 2021 year?

6.1 Cryptocurrency

a) It has been a good year for Capital Gains and for some, Cryptocurrency has been a real winner. For thiose who have realised Capital Gains the ATO wants to share in your good fortune. Thus in addition to the traditional growth assets such as shares and property, the ATO will be gathering data from designated Cryptocurrency service providers. Thus, if you have made a gain/profit on the disposal of your Crypto. The ATO is going to know about it.

6.2 The Motor Vehicle Claim (an ATO bugbear)

a) Taxpayer, can only claim a deduction for the cost of using a car they own, lease or hire when they drive ;
- Between separate jobs on the same day
- To and from an alternative workplace for the same employer on the same day
- From home directly to an alternative workplace

b) On the other hand, Taxpayers cannot claim a deduction for ;
- Normal trips between home and work. In limited circumstances, they can claim the cost of trips between home and work, for example, where they are carrying bulk tools or equipment for work.
- Car expenses that have been salary sacrificed or where they have been reimbursed.
- The most important thing in making a claim is that you must have kept true and accurate records of your business/work-related car use or you will have no show with the ATO.

6.3 The following are red flags to the ATO (ie red rag to the bull)

- High Claims- the ATO compares claims across industries, and where your claims are unusually high, Big Bertha is going to tell a human to check it out.
- Big Bertha compares your claims one year to the next. If the claim amount is the same year after year Big Bertha will form the conclusion that you are just plucking the numbers from the past and alert a human to give you a call.

6.4 The Key reasons for work-related claim adjustments arising from ATO Audits are claims that have;

- No link between the expense and the you earning your income.
- No- supporting evidence – receipts, logbook or diary.
- Incorrect apportionment (private use vs work-related use)

7. More information for individuals

7.1 Individual Tax rates for year ended 30 June 2021

Taxable Income	**Tax on this Income**
0 - $18,200	Nil

$18,201 - $45000	19c for each $1 over $18,200
$45,001 - $120,000	$5,092 + 32.5c for each $1 over $45,000
$120,001 - $180,000	$29,467,797 + 37c for each $1 over $120,000
$180,000 and over	$51,667 + 45c for every $1 over $180,000

(**excluding the Medicare levy of 2%)

7.2 2020-2021 Repayment Income Thresholds and Rates for 'HELP' Education Loans

Repayment Income	Repayment Rate
Below $46,62	Nil
$46,620 – $53,826	1.0%
$53,827 - $57,055	2.0%
$57,056 – $60,479	2.5%
$60,480 – $64,108	3.0%
$64,109 - $67,954	3.5%
$67,955 – $72,031	4.0%
$72,032 – $76,354	4.5%
$76,355 – $80, 935	5.0%
$80,936 – $85,792	5.5%
$85,793 – $90,939	6.0%
$90,940 and 136,739	From 6.5 % to 9.5%
$136,740 and above	10.0%

7.3 Claiming Home Office Expenses

Claiming home office expenses can be tricky to navigate as there is not one method to choose from in claiming home office but rather, there are three.

Most importantly, as with claiming other Personal Deductions, to make a claim for home office expenses, you must have spent the money, the expenses must be directly related to your earning of income and you must keep a record to prove/evidence the claim. If your employer has reimbursed the expense to you, you cannot claim a deduction. You can claim expenses such as phone and internet expenses, stationery, electricity expenses (by pro-portioning the expenses to the work area of your home that you dedicate to work. You cannot claim expenses such as rent, mortgage interest, rates or other general household items (eg. coffee, milk etc.)

Now: to the three methods: you can choose one of the three methods to claim home office expenses for the 2021 Financial Year:

1. **Actual Cost Method** – claim the actual work-related expenses. You must have kept a diary for four (4) weeks showing the number of hours you worked from home. You need to keep receipts for the phone, internet expenses and stationery. You can determine the cost of heating and electricity based on the cost per unit of power used, the average number of units per hour and the number of hours you worked from home during the year.

2. **Fixed rate Method** – You also must keep a diary for four weeks to make use of this method. Plus you must also keep receipts for phone, internet and stationery expenses. In the end, to determine the quantum of your claim you multiply the total hours by 52 cents. The 52 cents per hour is intended to cover the cost of electricity expenses, cleaning and heating expenses.

3. **Shortcut Method (COVID- Hourly Rate)** – Should you find both of the above methods too tedious, you can claim 80 cents for each hour you work from home due to COVID-19 (for the period from the 1st July 2020 to the 30th June 2021). The small print is that you ***must have kept timesheets, diary or rosters evidencing the number of hours you worked from home***. The benefit of using the shortcut method, is that you do not need to have a separate

area of your home set aside for working. Rather, the shortcut method rate covers **ALL deductible expenses** such as electricity, cleaning expenses, phone, internet and stationery.

As you can see, there is one fundamental aspect common to all three methods and that is the need to keep a diary or timesheets to establish a record of the time spent in the home office. As we were inputting the home office claims in the 2020 year end returns, it was the failure to keep a record of the hours that provided the most grief. But with without a diary/ logbook, the claim is doomed to failure.

7.4 My thoughts as to rod that the Federal Government and the ATO have created for our tax system

It was seen as a great idea to develop a computer system that would enable Taxpayers to go online and prepare and lodge their Tax Returns. Over 40% of individual Taxpayers and 20% of small business returns are self-prepared and lodged; that is all good, but in the 2020 year, a random audit of these returns disclosed that 77% needed to be adjusted no doubt in favour of the ATO. Currently, the loss of revenue is huge. We see it as a big ask for an individual with no tax training to prepare and lodge a tax return and have it pass the muster as error-free. Quite apart from the risk of genuine error, there is the temptation when armed with the knowledge that the greater the total of the deductions the greater the refund. Given the above, we see the next step as being that the Federal Government will legislate a pre-set deductible amount coupled with prefilling and work-related claims will be a memory lost in the past.

8. Superannuation changes commencing from the 1st July 2021

a) Superannuation Guarantee Changes : Currently, an employer (for the most part) contributes an amount equal to 9.5% of an employee's gross wage/salary into a superannuation fund of the employee's choosing. Since its inception, the plan has been that the contribution rate should increase from 3% in 1992 to 12% by 2025. The upward trajectory has been on hold for some years but is again on the move. The bottom line is that as from the 1st July 2021 the rate will increase from 9.5% to 10% for all eligible employees.

b) For all of you employers: There are penalties for underpaying Super Guarantee. You need to ensure that your payroll systems are updated so that you are green to go from the 1st July 2021. If you need any assistance with your payroll systems or STP please contact us.

c) Matter of $450.00 per month threshold: Currently, if you pay an employee less than $450.00 per month, then an employer is not required to pay the Superannuation Guarantee. Under the 2021 Federal Budget it was announced that the the $450.00 threshold would be removed from the 1st July 2022. However, this change has yet to be legislated.

d) Superannuation Contribution Caps: The caps are also on the move as follows ;

Concessional Cap- Currently $25,000	From $25,000 to $27,500 as from the 1st July 2021
Non – Concessional – Currently $100,000 pa	To rise from $100,000 to $110,000 from 1st July 2021

Note: the movement in the caps also impacts the three-year bring-forward rule and the carry-forward unused concessional contribution rule.

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 trading Proprietary Company (ABC Pty Ltd) makes profits, pays tax at 26%, (soon to be 25%) and in due course pays you a dividend. In turn, you include the divided and gross it up with the value of the tax that has been paid by the company into your personal tax return. You pay tax on the grossed-up dividend but you are given credit for the amount of Company tax that the ATO has been 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 your Company without recognising the amount as a dividend, you are in effect borrowing company funds (and to do that you will need to put in place a Complying Loan Agreement between the company and yourself.). 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 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, are loans to the shareholder or those related to shareholders, that have had their origins on a date before December 2009 and have been allowed to set in the Balance Sheets of Companies. This sheltered status, 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.

For clarity from the 1st July 2020, the following measures were intended to be introduced;

- A self-correction mechanism to assist taxpayers to promptly rectify inadvertent breaches of Division 7A.
- 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 by the Federal Government the ATO will be looking for every dollar it can to replenish the coffers.

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 has 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 2020/2021

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 forPersonal 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 2021 RENTAL PROPERTY DETAILS FORM

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

2021 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?		
• Did you receive any part of the **rental bond** (where a tenant defaults on their rent or for damage to the property requiring repairs)?		
• Did you receive any **insurance receipts** for loss of rent or for damage to the property requiring repairs?		
• Did you receive a **letting** or **booking fee**?		
• 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**?		
• Do any body corporate fees relate to contributions made to a special purpose fund to pay for **capital works** (e.g., improvements)? [5]		
• 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) ?		
• 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]		
• The property was acquired by you ***before*** 9 May 2017 and was used for rental purposes at some time during the 2017 income year.		
• The property was acquired by you as a **new residential property** ***after*** 9 May 2017.		
• You acquired **new** depreciable **assets** for the property *after* 9 May 2017.		
• 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)		
• 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)		
• Has any part of the outstanding borrowing being used for other income-earning purposes (e.g., to buy dividend-earning shares)?		
• 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?		
• **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).		
• Rectifying **damage** or **deterioration** to the property, such as: (9) – 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		
• 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: • replacing the entire kitchen of the property; • installing a new electrical switchboard to the property; • replacing a timber window frame with an aluminium frame;		

• 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.*