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## 2022 FINANCIAL YEAR END NEWSLETTER

Here we are again sliding into the end of the 2022 Financial year. By our reckoning, the 2022 Year makes this annual Newsletter Number 38.

The Federal 2022/2023 budget hit the streets on the 29<sup>th</sup> March 2022. On the face of it there was no major items to shake up the nation. But it was not without substance and the general view was that it was appropriate and as one would expected for an election year. Despite no big news, we have included a section in the Newsletter to touch on some of the matters that were addressed in the Budget that will have some impact on small business.

As with the 2021 year, the Federal Government, working with the ATO has tighten the net on avoidance of existing taxing laws without actually increasing tax rates. Big Bertha has been trained to gather information from a range of sources and then cross match that data. When the computer finds an anomaly, a please explain notice is issued.

For employers, you need to be mindful that from the 1<sup>st</sup> July 2022 you will need to adjust your wages software to reflect that the rate of Super Guarantee increases from 10.0% to 10.5%. Plus, we remind you that from the 1<sup>st</sup> July 2022 superannuation will also need to be on employee wages where those wages are less than \$450 per month. (in other words from dollar one)

We again remind you of our Website ([www.lprtaylor.com.au](http://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 and 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.

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

### **2022 Year-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 30<sup>th</sup> June 2022 (falls on a Thursday this 2022 financial year). Also, be aware that the tax savings window of opportunity will not be there as you wake up on the 1<sup>st</sup> July 2022.

## **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 sent 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 underperforming assets may enable you to bring forward a tax loss that can be offset against any capital gains made throughout the 2022 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 30<sup>th</sup> June 2022, 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 your year-end trust distribution 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 30<sup>th</sup> June 2022.

### **1.7 Review Unpaid Expenses (your business Creditors)**

For those of you in a business that accounts on an accruals basis and have fallen behind in paying their rent or other expenses, you may still claim a tax deduction for amounts 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 30<sup>th</sup> June 2022. 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 of a Superannuation fund, you are obligated to review the fund's Investment Strategy every year before the 30<sup>th</sup> June year end.

### **1.10 Capital Gains timing of contracts – be careful of the timing;**

For CGT purposes, acquisition and disposal of a CGT asset by contract takes place when the contract is “made.” For example if an offer is made and accepted on the 10<sup>th</sup> June 2022 but is conditional as to finance approval and that finance is not approved until say the 10<sup>th</sup> July 2022, despite Settlement of the transaction not occurring until say the 31<sup>st</sup> July 2022,

the contract is deemed to have been “made” on the 10<sup>th</sup> June 2022. The practical consequence for the Seller is that the disposal is deemed to have taken place in the 2022 financial year and not the 2023 financial year.

## 2. Some Interesting Bits

### 2.1 Temporary Full Expensing (TEE)

For an entity with aggregated turnover of less than \$50 million, the Instant asset write-off does not apply to new assets or second-hand assets that are first used or installed ready for use from 6th October 2020 to 30th June 2023. However, the Temporary Full Expensing (TEE) allows for a deduction for assets that were purchased between 6th October 2020 to the 30th June 2023.

We have summarised in the table below for the requirement of Temporary Full Expensing (TEE):

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

### 2.2 Base Rate Entities (the Company Tax rate is now 25%)

Companies with an aggregated turnover of below \$50 million would have had their tax rate lowered to 25% for this 2021-2022 year. The 25% rate is now projected to stay in place for at least the 2023 year and beyond. (but watch this space)

## 3. Some reminders as to superannuation and for Self-Managed Superannuation Funds (SMSF)

### 3.1 Concessional & Non-Concessional Contributions

Concessional (deductible) Contributions are often described as those before tax. Examples of Concessional Contributions include (but are not limited to), Super Guarantee (Currently at 10%, but soon to be 10.5%), Salary Sacrifice amounts, and any Personal Contributions which you claim as a tax deduction.

For the 2022 year, the Concessional Contribution cap is \$27,500, however, like much of Tax Law, there are exceptions. The major exception is that although the cap is \$27,500 per annum if you do not use all of the cap in one year (providing you meet the eligibility criteria), you can carry the shortfall forward for a maximum of the next five years.

To illustrate with an example; if for the 2021 year you only contributed \$10,000, (and there is no unused concessional cap for the 2020 year) then in the 2022 year you are able to contribute and claim \$42,500 (providing, that your total super balances of all of funds 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, for any year where your concessional contributions exceeds \$27,500, the excess contribution will be 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 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.

Note: The Work Test also comes into play. In brief, for the 2022 year if you are aged 67-74, you must have worked for a minimum of 40 hours in any 30 consecutive days in order to be able to make voluntary non-concessional contributions into super. The good news is that the Work Test will be abolished as of 1<sup>st</sup> July 2022. Moving along the timeline, once you reach 75 you can no longer make non-Concessional Contributions.

For the 2021-2022 financial years for after-tax contributions, the Government is more generous in that the cap is \$110,000 for the 2022 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 \$110,000 cap so that say, for the 2022 year, you could contribute \$330,000 as a Non-Concessional Contribution.

However, there is the inevitable fine print associated with the 2022 year and that is to access the non-concessional bring forward arrangement you must meet all these conditions;

- a) To have been under 67 years old for at least one day of the triggering year (first year) once you reach 67,
- b) You must contribute more than the annual Cap (for 2022 \$110,000)
- c) You must not already be in an active bring forward period when making a non-concessional contributions,
- d) For the 2022 year the member's balance cannot exceed \$1.59 m.

### **3.2 With Superannuation contributions, timing is crucial**

Fundamental—we suggest that you dispatch your superannuation to their respective funds no later than Friday the 17<sup>th</sup> June 2022. The early date will assist to ensure that your superannuation contributions are both paid and nested into your superfund's bank account by the 30<sup>th</sup> June 2022 (it is a Thursday) .

### **3.3 Minimum Pensions - Withdrawing minimum pension (this is important):**

We remind those of you who are drawing pensions from your superfund that there is a minimum amount that must be extracted each year. The good news is that the Federal Government has again acted with wisdom in the 2022 budget year and has kept the 50% reduction to the minimum amount in place for the 2023 year.

For the 2022 year, the pension amount is calculated on your Member's balance as at the 1<sup>st</sup> July 2021. The balance would have been advised by us for those retirees who are currently receiving an Account Based pension from their SMSF.

If you have misplaced our advice or you are at all unsure as to what your Minimum Pension amount for the 2022 year 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>Minimum Standard Percentage Factor</u>	<u>Temporary Rate to 30<sup>th</sup> June 2023</u>
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 30<sup>th</sup> June 2022**

In order to be able to advise the Members of their balances the Trustee needs to know the value of all assets held within the superfund as at the 30<sup>th</sup> 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**

We are living longer, Australia now has a trillion dollar national debt and there are the Baby Boomers lining up for age care. We cannot expect future generations to carry all the load. As the end of the financial year approaches, now is an ideal time to think about ways that you can 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 and receive an Acknowledgment from your superannuation fund before you lodge your Tax Return.

If you are aged 67 to 74, you will also need to meet the work test (i.e. you have worked for a minimum of 40 hours in any 30 consecutive days) if you wish to claim personal superannuation deduction on your Tax Return.

### **4.2 Adding to Super by Downsizing Your Home**

*Note: The good news is that as part of the recent 2022/2023 Federal Budget announcements, access to the Downsizer has been reduced from age 65 years to age 60 years as from 1<sup>st</sup> July 2022.*

Just a reminder that from the 1<sup>st</sup> 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) Currently, the Taxpayer must be 65 years or older and must have owned the family home (CGT main residence) for at least 10 years. (but see note above wherein the March 2022 Budget it was proposed that the eligibility age would be reduced from age 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 upper age limit..
- 4) But if your Transfer Balance Account has reached your Transfer Balance Cap, the \$300K must stay in the accumulation compartment (whereat 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 2021 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 taxpayers spouse can contribute more than the \$3,000 but the extra will not be tax-deductible and not provide any tax offset).

The fine print; In order to receive the maximum tax offset of \$540 for the 2021-2022 financial year, you must contribute to your partner's super fund (either de-facto or married) by 30 June 2022 and your Spouse's Income (the sum of spouse's assessable income, total reportable fringe benefits amount and reportable employer super contribution) must be \$37,000 or less in order to receive the full offset. If your Spouse's Income exceeds \$37,000, the Tax Offset is progressively reduced until it reaches zero for those spouses who earn \$40,000 or more. Further, there is a matter of age. Currently, your 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 30<sup>th</sup> June of the previous financial year must not exceed \$1.7m.)

#### **4.4 Contribution Splitting With your Spouse**

The current concessional contribution cap is \$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 2022 year the husband contributed the full \$27,500 into his superfund. In hindsight, the husband decides he should have split the prior year's contribution with his wife and sets about having his fund transfer (up to 85%) of his \$27,500 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 super 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 \$1.7m Balance cap, by diverting contributions to the member with the lowest balance the chances of getting more than the \$1.7 into super is increased.

## **5. ATO Targets in 2022 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 2021 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;

<b><u>COMMON ERRORS</u></b>	<b><u>CORRECT TREATMENT</u></b>
<b>1) Log Book is not kept for the required 12 week period.</b>	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 year ends as long as it includes part of the year for which the claim is made.
<b>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)</b>	A log book has only 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).
<b>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.</b>	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.
<b>5) Conclusion</b>	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**

Taxpayers who rely on the cents per KM Method (i.e. for the 2022 year the rate is 72 cents for a total of 5,000 kms) 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 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 (described as 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 (wrong beliefs)** 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 contrary 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"> <li>• 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).</li> <li>• 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</li> </ul>

Records to substantiate a deduction for motor vehicle expenses	<ul style="list-style-type: none"> <li>• Where the individual owns or leases the vehicle, there will be the need to produce lease documents or vehicle purchase documents and registration papers.</li> <li>• Details of how the deduction claim was calculated, a description of each item and the dollar amount claimed.</li> <li>• Be able to demonstrate how expenses were apportioned i.e. logbook or diary in conjunction with odometer records</li> <li>• And yep, receipts or other evidence such as bank statements and credit card statements to evidence the expenditures.</li> </ul>
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The conclusion has to be reached that claiming 100% of work/business usage of your "Workhorse" puts you in the ATO crosshairs, 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 2022 year the ATO continued its audit activity of rental properties.

<b>So what is it that the ATO looks for</b>	<b>Example</b>
<ul style="list-style-type: none"> <li>• Interest deductions not being correctly apportioned. In essence, interest was claimed but often, the loan was for private purposes.</li> </ul>	<ul style="list-style-type: none"> <li>• Loan money was 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.</li> </ul>
<ul style="list-style-type: none"> <li>• Wrongly classifying Capital works i.e. (Improvements being claimed as a repair)</li> </ul>	<ul style="list-style-type: none"> <li>• Claiming, say the cost of a new veranda as a repair when it was a Capital Improvement.</li> </ul>
<ul style="list-style-type: none"> <li>• Still claiming travel and inspection costs (disallowed from 1<sup>st</sup> July 2017)</li> </ul>	<ul style="list-style-type: none"> <li>• Disallowed from the 1<sup>st</sup> July 2017</li> </ul>
<ul style="list-style-type: none"> <li>• Omitted Income and over-claimed deductions</li> </ul>	<ul style="list-style-type: none"> <li>• This was found to be common in accommodation sharing rentals such as Airbnb</li> </ul>
<ul style="list-style-type: none"> <li>• Also be mindful that the holding cost of vacant land (even with a shed on it) are not tax deductible</li> </ul>	<ul style="list-style-type: none"> <li>• E.g. land tax, shire rates &amp; water rates and manintenance costs can not be claimed on vacant land</li> </ul>

**The onus on the Tax Agents again for the 2022 year—we are required to establish the following;**

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

## **6. What else will be of interest to the Taxman for the 2022 year?**

### **6.1 Cryptocurrency**

- a) For those 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. Also, be mindful that as of March 2022 there were over 18,000 different Cryptocurrencies in existence. Also be mindful that if you sell, say Bitcoin at a profit and buy and sell say Ethereum at a profit, and go on to buy and sell Solana, the taxing point is not the last sale nor when you convert back to Aussie dollars, rather the taxing points are after each buy and sell.

## **6.2 The Motor Vehicle Claim (an ATO bugbear)**

- a) Taxpayers, 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; (With the exception that a taxpayer can claim the cost of trips between home and work, where they are carrying bulk tools or equipment for work.)
  - Car expenses that have been salary sacrificed or where the expenses 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 earning of 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 2022 (Same as 2021)**

<b><u>Taxable Income</u></b>	<b><u>Tax on this Income</u></b>
0 - \$18,200	Nil
\$18,201 - \$45,000	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 2021-2022 Repayment Income Thresholds and Rates for 'HELP' Education Loans**

<b><u>Repayment Income</u></b>	<b><u>Repayment Rate</u></b>
Below \$47,014	Nil
\$47,014 – \$54,282	1.0%
\$54,283- \$57,538	2.0%
\$57,539 – \$60,991	2.5%
\$60,992 – \$64,651	3.0%
\$64,652 - \$68,529	3.5%
\$68,530 – \$72,641	4.0%
\$72,642 – \$77,001	4.5%
\$77,002 – \$81,620	5.0%
\$81,621- \$86,518	5.5%
\$86,519 - \$91,709	6.0%
\$97,7102-\$97,212	6.5 % etc
\$137,898 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 2022 Financial Year. As a big picture introduction, the substantiation obligations associated with the Actual Cost Method is the most demanding. The Fixed rate method less so and the shortcut method the least demanding. However that ranking also reflects the possible quantum of the amount that can be claimed.

1. **Actual Cost Method** – You can claim the actual work-related expenses.
  - a. You must have kept a diary for at least four (4) weeks showing the number of hours you worked from home. You need to keep receipts for the phone, internet expenses and stationery.
  - b. 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.
  - c. You can claim depreciation on home office Furniture and furnishings, phones computers laptops etc. Remember to keep You can also claim cleaning expenses, cost of heating, cooling, lighting, phone and internet, printer ink, paper etc.
  - d. As a reinforcement; you must either keep a record of the number of actual hours you worked from home or a diary of a representative of a four week period to show your usual pattern of working at home. And you must keep all Invoices, Bills receipts and other documents to evidence your claims.
2. **Fixed rate Method** – to use this fixed rate method, you must;
  - a) have incurred extra costs as a result of working from home
  - b) have a dedicated work area such as a home office
  - c) have records that show the work- related portion of expenses not covered by the fixed rate per hour
  - d) have records (diary etc) of the number of hours spent working from home for the whole year

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 and gas expenses, cleaning and decline in value of home office furniture and furnishings.

Be mindful that for the phone and internet usage, be sure to keep a diary for a continuous period of four weeks. Last but not least, you can claim depreciation on assets such as computers, laptops and telephone hand sets.

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 (for the period from the 1<sup>st</sup> July 2021 to the 30<sup>th</sup> June 2022). 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. Plus the shortcut method rate **covers ALL deductible expenses** such as electricity, cleaning expenses, phone, internet and stationery. (Note: the short cut method owes its origins to Covid and is schedule to cease as at 30<sup>th</sup> June 2022.)

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 2021 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 March 2022 Budget Matters**

- a) For all of you employers, just a reminder that as from the 1st July 2022 the Superannuation Guarantee Rate will rise from 10% to 10.5%. Plus the existing the rule where if you pay wages of less than \$450.00 per month, Super Guarantee is not payable, will be replaced by a law that provides Superannuation Guarantee of 10.5% is payable from dollar one.
- b) The Federal tax avoidance Taskforce has been allocated more funding for the next two years totaling \$656m to fund the continued pursuit of multinationals, large corporations, and high-wealth individuals. No doubt the Government was encouraged by the past successes of the task force where it has collected an extra \$23B in tax revenue since 2016.
- c) Qualifying taxpayers have been provided with an increase of \$420.00 to the Low and Middle Income Tax Offset. (LMITO). The maximum LMITO has now increased to \$1,500.00. However, the generosity is not for everyone such that if you earn more than \$126,000 you do not receive the extra \$450.00.
- d) For those of you who are self-funded retirees, you will be allowed to continue to draw your superannuation pension at 50% of the otherwise rate. The theory is that the longer it lasts, the longer you can be at least partially independent of the Commonwealth Pension.
- e) Home Guarantee Scheme- (HGS): To keep the housing sector ticking over and to provide more affordable housing the Federal Government has extended the HGS to provide 35,000 places to new home buyers, 5,000 places to single parents and 10,000 places in regional areas. Wait there is more, the Family Home and Regional Home Guarantee will provide 5,000 and 10,000 places each year until the 30<sup>th</sup> June 2025. As a sweetener, the Federal Schemes will allow for lower deposits and not require mortgage insurance for the borrower. With the rising cost of building materials and other inputs (and interest rates), no doubt some of these builds will end in tears.
- f) Skills and Training Boost - Assuming legislation is drafted and passed, the Government will allow for a further 20% deduction for expenditure where a small business (aggregated turnover of less than \$50m) invests in employee skills and training. The small print is that the training organisation must be registered in Australia and the training must be provided to employees in Australia or online. The good news is that you can claim expenditure amounts in your 2023 Tax Return going back to the 30<sup>th</sup> March 2022.
- g) Technology Investment boost - Assuming the legislation is drafted and passed, a small business with an aggregated turnover of less than \$50m will be allowed to claim the extra 20% expenditure incurred to support digital utilisation/adoption. This extends to the purchase of related depreciable assets. The small print is that the cap will be limited to \$100,000 per year. The good news is that you can claim the underlying purchase amounts incurred as from the 29<sup>th</sup> March 2022 and claim the extra 20% in the 2023 Financial year. (ie in the 2023 Tax Return). As you move into the 2023 year you can claim the full 120% in one go.
- h) To the employers among you, you would be aware that you now report payroll data, such as salaries and wages, PAYG Withholding and Super Guarantee amounts to the ATO using the Single Touch Payroll system. (STP). The ATO is a Federal Government Department. The Budget included \$6.5 m to create and install software that will enable STP to also share data with the various State Revenue Departments such as Payroll Tax. What that means is that State Revenue Departments will know how much in wages an employer pays and presumably to whom it has been paid.
- i) Loss carried back tax offset: The good news is that the loss carried back tax offset has been left in place for at least the years ended 2022 and 2023. We claim this offset quite often. How it works is that eligible entities access the offset by choosing to carry back losses to earlier years in which there was tax payable. The offset effectively represents the tax the entity would have saved if it was able to deduct the loss in the earlier year using the loss year tax rate. As the offset is a refundable offset there is often a refund of tax that has been paid.

## **8. Division 7A ITAA 1936 and the Taxman cometh: If you trade in a company, this one is really important and was included in prior years.**

Your trading Proprietary Company (ABC Pty Ltd) makes profits, pays tax at 25%, 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 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 consider widening 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 be set in the Balance Sheets of Companies. This sheltered status, is very likely to change in the near future and not for the better.

Cutting to the heart of the matter, in application, changes would mean that for loans taken from Private companies to associates of those companies, the Federal Government aims to ensure that the Unpaid Present Entitlements are either required to be repaid to the Private Company using a complying loan or the loan will be subject to tax as a dividend in the hands of the shareholder. On a positive, the Government would see the taxing of the dividends as a way of putting tax revenue into government coffers.

Looking back; from the 1<sup>st</sup> 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 the existing housing rate to the current overdraft rate.
- Those companies who hold 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.
- To make it all work, there was to be passed a number of technical amendments that are intended to improve the integrity and operation of Division 7A and to provide increased certainty for taxpayers.

The Covid support measures took preference over the measures intended to bring the old loans into the taxing crosshairs. But rest assured the Federal Government will need to raise tax revenue from somewhere and the taxing of the UPE's are fair game as that will raise tax revenue without there being an increase in tax rates.

## **9. Matter of Trusts Distributions and Division 7A**

### **ATO TD2022/D1 released the Draft Ruling on the 23<sup>rd</sup> February 2022**

The ATO has been busy over the last 12 months.

On the 23<sup>rd</sup> February 2022 the ATO issued a draft ruling labelled as ATO TD 2022 /D1. The purpose was to signal that from the 1<sup>st</sup> July 2022 the ATO would not recognise a trust distribution to be valid unless the cash follows the distribution or at least is applied to the benefit of the nominated beneficiary. Failing the movement of the cash, a Division 7A loan agreement will need to be put in place, effectively evidencing the distribution borrowing.

A brief example of this relationship and the dealing that is causing the ATO so much ire would be where a Family Trust makes a distribution of 2022 profits to a related Company. The Company is credited with the distribution but the cash never moves to the company rather the cash stays in the Trust.

From an accounting perspective, the Company is credited with the distribution and taxed at 25% whereas if it went to an individual the tax rate would be as high as 47%. The ATO would not be worried if the cash moved to the company as in due course a dividend would be paid from the company to the shareholders who would then confront the higher tax rates.

But often, what should be happening is not, and in many cases the cash is simply left in the Trust or, worse withdrawn by the Directors from the Trust and spent. The outcome then is that the amount withdrawn is deemed to be an unfranked dividend. How that works is, as an unfranked dividend the loan is taxed in the individual's tax return and income tax is payable but there is no franking credit for the tax paid already paid by the company.

Here we introduce the concept of the loan agreement, where the individual is seen to borrow the profit distribution and under the terms of loan agreements makes at least yearly repayments.

What are the essential components of a compliant Loan agreement? (They are not complex)

- a) Agreement must be in writing and dated before the private companies tax return lodgement date
- b) The rate of interest must equal or exceed the benchmark interest rate for each year it is in place. The benchmark interest rate being the indicator of interest rate and is published by the Reserve Bank before the start of each year of Income. In short the rate can change each year. (currently 4.52% pa)
- c) The term can be seven years if unsecured or 25 years if the loan is secured.
- d) In the small print, at the end of the seven year term, a new loan cannot be put in place to repay the expiring existing seven year loan. However a new 25 year secured loan can be put in place to pay off the seven year loan, but the otherwise new 25 year loan will commence with a life of only 18 years.

## **10. Self Managed Superfunds; Final ATO Ruling (PCG 2019/ D6), (TR 2006/7) and the concepts of NALI and NALE**

The following paragraphs are relevant only for those of you who are Trustees /Members of Self Managed Superannuation Funds. We have circulated a special Newsletter in August 2021 to those of you with SMSFs. This is just a reminder that the Ruling has not gone away. The current Morrison Government has stated that it will pass legislation that will bring some real world balance to the Ruling but that has yet to happen.

So what are the letters NALI and NALE abbreviations for; the answer is None Arms Length Income and Non Arms Length Expenses.

Basically the provisions of both NALI and NALE come in to play where a SMSF and another party are not dealing at arms length and the fund incurs expenditure (or not) in gaining or producing ordinary or statutory income. Date of effect: 01 July 2018 (yep it reaches back).

Why is NALI so undesirable?

If the ATO identifies income that fits the definition of being NALI it is taxed at 45% within the Superfund. What's more all the assets become subject to Capital Gains tax when sold.

What income will be taxed as NALI at? (ie to be taxed at 45%)

- a) Parties not dealing at arms length and the income earned in the transaction is more or less than would be expected in an arms length dealing)
- b) Dividends paid by a private company to a (SMSF non-arms length)
- c) Income derived by a SMSF as a Beneficiary of a Discretionary Trust.
- d) Income derived by a SMSF as a beneficiary of a fixed trust (where parties are not dealing at arms length)

An example of parties not dealing at arms length. Say in the Brown Superannuation Fund there was held a property from which Brown & Associates Pty Ltd carried on a Legal Practice. Making one more assumption, assume Brown & Associates was paying significantly more rent to the Brown Superannuation Fund than what is market value. Excess rent would never be the state of play between non-associates negotiating on an arms length basis. If the rent fiddle as described

above were real and the ATO was alerted the rental income would have been classed as NALI income and taxed at 45%. (plus every asset within the superfund is tainted for CGT).

But wait there is more;

NALE (Non Arms Length Expenses) exist where :

The fund incurs a loss, outgoing or expenditure (or nil) in gaining or producing the income, and

The amount of those expenses is less than would be expected in an arms length situation.

A simple example of an NALE could apply; Say you own a building in your superfund and it needs a reroofing. Doing the right thing you get three quotes. All tradesman were of equal skill, of the three your Brother was the cheapest. You choose your Brother because he offered a lower price, because he loves you. Guess what? This arrangement would be caught by NALE as it was not arms length dealing.

So the moral arising from NALI and NALE, what ever you do with your SMSF property, make sure you do it at Arms Length.

## **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](mailto:info@lprtaylor.com.au) or by telephone: (08) 9274 6944. Finally, copies of earlier Newsletters are on our Website at [www.lprtaylor.com.au](http://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.

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### 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](mailto: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:

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## PRE-APPOINTMENT CHECKLIST 2021/2022

### **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
- ☐ An Acknowledgement Letter from Superannuation Fund to RSA provider (for claiming Personal Super Contributions deduction)
- ☐ 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 offline file)
- ☐ Bank 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: \_\_\_\_\_
- ☐ 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 2022 RENTAL PROPERTY DETAILS FORM**

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

<b>2022 Rental Property Details Form</b>		
<b>Personal details and property details</b>		
<b>Taxpayer's Full Name</b>		
<b>Tax File Number</b>		
<b>Date of birth</b>		
<b>Taxpayer's contact details</b>	<b>Mobile:</b>	<b>Other:</b>
	<b>Email:</b>	
<b>Address of property</b>		
<b>When was the property first purchased, and was it new or second-hand? <sup>(0)</sup></b>		
<b>How many other rental properties do you own outright or jointly?</b>		
<b>What is your ownership interest in this property (e.g., 100%, 50%, etc.)?</b>		
<b>Was the property rented at any time through Airbnb or under a similar accommodation arrangement?</b>	Yes/No	
<b>Number of days the property was rented (or genuinely available for rent – e.g., advertised for rent) at market rates during the year <sup>(1)</sup></b>	Yes/No	
<b>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)? <sup>(2)</sup></b>	Yes/No	
<b>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)?</b>	Yes/No	

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

J. Did you incur (and have evidence of) any <b>building insurance</b> premiums in relation to the property? <sup>(1)</sup> <sup>(2)</sup> <sup>(6)</sup>		
K. Did you incur (and have evidence of) any <b>interest expenses</b> on moneys borrowed in relation to the property? <sup>(1)</sup> <sup>(2)</sup> <sup>(6)</sup>		
<ul style="list-style-type: none"> <li>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)? <sup>(8)</sup></li> </ul>		
<ul style="list-style-type: none"> <li>Has any part of the outstanding borrowing being used for other income-earning purposes (e.g., to buy dividend-earning shares)?</li> </ul>		
<ul style="list-style-type: none"> <li>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? <sup>(6)</sup></li> </ul>		
<b>Rental expense details – please provide evidence</b>	<b>Yes/No</b>	<b>Unsure</b>
L. Did you incur (and have evidence of) any <b>land tax expense</b> in relation to the property?		
M. Did you incur (and have evidence of) any <b>legal expenses</b> 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 <b>pest control expenses</b> (e.g., the eradication of termites) in relation to the property?		
O. Did you incur (and have evidence of) any <b>property agent fees (or commission)</b> in relation to the property?		
P. Did you incur (and have evidence of) any expenditure on the following?		
<ul style="list-style-type: none"> <li><b>Maintenance</b> 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).</li> </ul>		
<ul style="list-style-type: none"> <li>Rectifying <b>damage</b> or <b>deterioration</b> to the property, such as: <sup>(9)</sup> <ul style="list-style-type: none"> <li>– repairing a broken window or resealing a leaking window;</li> <li>– replacing broken bathroom tiles;</li> <li>– repainting peeling or dirty internal walls;</li> <li>– replacing rotten floor boards and/or polishing floorboards;</li> <li>– replacing damaged or worn out curtains, blinds and carpets; and</li> </ul> </li> </ul>		
<ul style="list-style-type: none"> <li>Did any of the above work relate to damage or deterioration that existed <b>at the time the property was purchased</b>? <sup>(9)</sup></li> </ul>		
<b>Q.</b> Did you incur (and have evidence of) any <b>capital works</b> expenditure (i.e., basically, improvement expenditure), such as: <ul style="list-style-type: none"> <li>replacing the entire kitchen of the property;</li> <li>installing a new electrical switchboard to the property;</li> <li>replacing a timber window frame with an aluminium frame;</li> </ul>		

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

(10) 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.