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## 2023 FINANCIAL YEAR END NEWSLETTER

Here we are again, sliding into the end of the 2023 Financial year. By our reckoning, the 2023 Year makes this annual Newsletter Number 39.

The Federal Budget hit the streets on the 9th May 2023. As always, we have included some tax relevant material. Not a lot of tax issues but as always governments cannot leave superannuation alone The Budget will be known as the Health and Aged Care Portfolio Budget. There are some new ways to extract more tax dollars from those citizens that are thought to have more wealth money than they need. We have included a section in the Newsletter to touch on some of the matters that were addressed in the Budget that will have impact on small business and those you who pay tax or eligible to receive benefits.

The Albanese Government has also laid out its blueprint for changes to Superannuation. Again, there is an aspect of Robinhood lives as the Federal Government works out various ways to take from the "Haves and use the tax loot to buy the votes of the have nots. To the credit of the Albanese Government, it has held off legislating the Superannuation changes until after the next Federal election. That date will be before the 2025 calendar year. In any event, we have highlighted some of the changes should labour succeed in winning the next Federal election.

While on the topic of Superannuation for all of you with a Payroll, be mindful that the Super Guarantee rate increases from 10.5% to 11% on the 1st July 2023.

What working from home expenses are claimable and what expenses are not claimable continues to change with the most recent rethink being included within. It would be fair to conclude that working from home expenses has come at a cost to the public tax purse.

Discretionary Trusts were never the ATO's favourite business/investment vehicle and the ATO takes particular offence where Section 100A is offended/comes into play. That occurs where a Trustee makes a distribution to a beneficiary but the beneficiary does not receive the distribution nor the benefit of that distribution. Dealings that offend Sec 100A have never been encouraged by us however we have highlighted the new ATO position just in case someone tries to temp you where the on-paper distribution goes one way and the actual cash goes another.

As the year end nears, there is the inevitable matter of ensuring minimum pension drawings are met. As noted within the content there is the matter of contributions and ensuring that for those of you who wish to top up your contributions do so before the 30th June 2023.

Privacy and protection of customer/clients' data has become a front and centre topic and priority. Cyberattacks, targeting Medibank Private and now Latitude and the millions of consumers affected has caused the Federal Government to introduce legislation that will require better data securing by all that hold other people / businesses data. And yep there are serious penalties for failing to protect the data. Those of you who we share information with will be aware of us making use of DocuSign and One Drive to reduce risk of data leakage/theft.

As with the 2022 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 crossmatch that data. When the computer finds an anomaly, a please explain notice is issued.

For employers, you need to be mindful that from the 1st July 2023 you will need to adjust your wages software to reflect that the rate of Super Guarantee increases from 10.5% to 11.0%.

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 and up to strength, and we are confident that we can meet your needs.

Qualification

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**

**2023 Year-end Tax Planning**

As the year-end looms, it is important to be aware that year-end tax saving/deferral matters must be in place before you go to bed on the 30th June 2023. For this year, the 30th June 2023 falls on a Friday). Also, be aware that the tax savings window of opportunity will not be there as you wake up on the 1st July 2023.

# 1. Some things for your 30th June 2023 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 2022 year-end accounts and tax work, we would have 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 Gains Losses

If you sell an underperforming asset and cause a Capital Gains loss on disposal, be mindful that loss can only be offset against a Capital gain in the 2023 year or failing that carried forward to a later year to be offset to a subsequent capital gain.

## 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 2023, provided the debt has previously been included as assessable Income. Ie treated as revenue on one hand and a Debtor on the other hand.

## 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. However, be aware that not all prepaid expenses are deductible immediately. If the service period of your prepaid expenses extends beyond 12 months, an immediate deduction does not apply. Instead, the deduction will be apportioned in each financial year, until the end of the service period up to a maximum of 10 years.

## 1.6 Trust Distribution Resolutions

For all of you Trustees of Discretionary Trusts, we have or will soon be communicating with you and supplying your draft year-end trust distribution resolutions. Please ensure when we reach the final stage so that the Final Trustee Resolution is reviewed, signed, and sent back to us (or is safely tucked into your file) well before the 30th June 2023.

## 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 your business rent or other business related expenses, you may still claim a tax deduction for amounts owing but not yet paid.

## 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 2023. 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 30th June year end.

## 1.10 Capital Gains timing of contracts – be careful of the timing; brought forward from last year

For CGT purposes, the acquisition and disposal of a CGT asset by contract takes place when the contract is "made." For example, if an offer is presented and accepted on the 10th June 2023 but is conditional as to finance approval and that finance is not approved until say the 10th July 2023, despite the Settlement of the transaction not occurring s until say the 31st July 2023, the Contract is deemed to have been "made" on the 10th June 2023. The practical consequence for the Seller is that the disposal (taxing event) is deemed to have taken place in the 2023 financial year and not the 2024 financial year. (and the sting is that tax is payable 12 months earlier than otherwise.)

## 2. Some Interesting Bits

### 2.1 Temporary Full Expensing (TFE) it is still available for the 2023 year.

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, Temporary Full Expensing (TEE) does allow for a deduction for assets that were purchased between 6th October 2020 to the 30th June 2023.

We have summarised in the table below the requirement to satisfy conditions of Temporary Full Expensing (TFE):

| 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.<br>First used or installed ready between 7.30pm AEDT on 6th October 2020 and 30 June 2023 | New and second-hand assets.<br>First used or installed ready for use between 7.30pm AEDT on 6 October 2020 and 30 June 2023 | New assets only.<br>First used or installed ready for use between 7.30pm AEDT on 6 October 2020 and 30 June 2023 |
| Car | GST Car limits apply<br>2022FY - $60,733<br>2023FY- $64,741 | Car limits apply<br>2022FY - $60,733<br>2023FY- $64,741 | Car limits apply<br>2022FY - $60,733<br>2023FY- $64,741 |
| 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.<br>The choice is un-changeable | Can choose to opt out TFE for an income year on asset-by-asset basis.<br>The choice is un-changeable |

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

Companies with an aggregated turnover of below $50 million would have had their tax rate lowered to 25% for this 2022-2023 year. For the 2023 year end the Base rate is still 25%. There were no further rate reductions in the 2023 Federal Budget.

Base Rate Passive Entities

Be aware that for companies that earn directly or indirectly "Base Rate Entity Passive Income", such as Company dividends, Franking credits, rent, net capital gain and Income from a Partnership or Trust estate, that is base rate passive income — the tax rate is 30% and not 25%

## 3. Superannuation and a look at what the future may hold for some and 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 10.5%, but soon to be 11.0 %), Salary Sacrifice amounts, and any Personal Contributions you claim as a tax deduction.

For the 2023 year, the Concessional Contribution Cap is $27,500 and unless changed in the May 2023 Budget the Cap will remain $27,500 for the year ended 30th June 2024. However, there are exceptions. The major exception is that although the cap is $27,500 per annum, if you have not used all the Concessional Cap in one year (providing you meet the eligibility criteria), you can carry the shortfall forward to the next year and do so for a maximum of five years.
So what is the fine print? One barrier is that you cannot have a balance in the fund greater than $500,000 at the end of the previous financial year, and two, that you actually did make concessional contributions in the financial year that exceeded your general concessional contributions cap.

To illustrate with an example, if for the 2022 year, you only contributed $10,000, (and there is no unused concessional cap for the 2022 year), then for the 2023 year you are able to contribute and claim $45,000 (i.e. (providing, that your total super balances of all of the 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 exceed $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 (non-deductible) Contributions (i.e., after-tax (non-deductible) 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 by you directly into your Spouse's Account.

For the 2022-2023 year the cap is $110,000. If you have surplus money and are keen to grow your Member's balance, the Federal Government will allow you to bring forward three years of your $110,000 cap so that say, for the 2023 year, you could contribute $330,000 as a Non-Concessional Contribution.
Below are five reasons why non-concessional contributions are valuable;

1) There is no contributions tax (ie the 15% tax ) as the money goes into the fund
2) Nor is there any tax payable on the withdrawal as you receive the super savings in retirement (the contributions are paid to you you tax-free.)
3) The contribution cap is significantly greater than the concessional contribution cap.($110,000 as against $27,500)
4) The tax on the earnings within your fund is 15%, whereas the tax rate outside your fund can be as high as 47% (including Medicare levy).
5) If you are a low or middle-income earner and make a personal after-tax contribution, you may qualify for a co-contribution payment of up to $500 (2022–23) from the Federal Government. To be eligible, you must not have exceeded your non-concessional contributions cap in the relevant financial year.

What is the associated small print for non- concessional contribution?

a) Your total superannuation balance must be less than the general transfer balance ($1.7 million in 2022/2023.)
b) The good news is that the work test no longer applies and the age limit is to be under 75 years of age. And after you reach 75 you still have another 28 days after the end of the month that you attain 75 to make the contribution.
    a) The real sweetener is that you may be able to bring forward another two years of non-concessional contributions. Converting that into money for the 2023 year if, you had not claimed any of the $110,000 non-concessional contributions in 2021 or 2022, potentially you could contribute up to $330,000 in the 2023 year. (The small : within the bring – forward arrangement is that the full $330,000 carried forward amount is only available if the

balance of your fund is less than $1.48 million at 30 June of the prior year and on a downward sliding scale the maximum contribution is nil once your balance exceeds $1.71m. You must contribute more than the Annual Cap (for the 2023 year $110,000) and you must not already be in an active bring forward period when making a non-concessional contributions.

### 3.2 With Superannuation contributions, timing is crucial

Fundamental—we suggest that you dispatch your superannuation to their respective funds no later than Wednesday the 21st June 2023. The early date will assist you to ensure that your superannuation contributions are both paid and nested into the respective Superfund's bank account by the 30th June 2023 (it is a Friday).

### 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. For the 2023 year the minimum amount is calculated using the Temporary Rate to 30June 2023.(see Table below)

For the 2024 year, the pension amount is to be calculated on your Member's balance as at the 1st July 2023. The rate will have reverted back to the Member Standard Percentage Factor. (See Table below) 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 2023 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")

| Age | Minimum Standard Percentage Factor | Temporary Rate to 30th June 2023 |
|---|---|---|
| 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 Superfund Fund Assets at 30th June 2023

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 30th June 2023. Valuing stock exchange listed shares is quite easy but for other assets such as real estate, paintings, antiques, etc. it is a touch more complicated (but should the need arise, 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 substantial national debt (soon to be one trillion) 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 providing 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 a 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 back an Acknowledgment from your superannuation fund before you lodge your Tax Return.

### 4.2 Adding to Super by Downsizing Your Home

*The eligibility age for Downsizer contributions has reduced from 60 to 55 from 1st January 2023.*

Just a reminder that from the 1st July 2018 new law kicked in that enables 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) For downsizer contributions made between 1st July 2022 and 31st December 2022, the eligible individual must be aged 60 or order. For downsizer contributions made from 1st January 2023, the eligible individual must be aged 55 or older.
2) The individual must have owned the family home (CGT main residence) for at least 10 years.
3) The Individuals are not required to buy another home; what's more, they can buy a more expensive home.
4) The contribution is a non-concessional contribution; however, 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.
5) But if your Transfer Balance Account has reached your Transfer Balance Cap (ie $1.7m for 2023 FY), the $300K must stay in the accumulation compartment of the fund (at which earnings are subject to a 15% tax rate.)
6) 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, the monies are counted in determining eligibility for aged care and home care facilities.
7) Some good news is that from the 1st January 2023 you have 24 months during which the house proceeds remain exempt from the Assets Test. (you can use this time to purchase, build or renovate another home.
8) The contribution to Super must be made within 90 days of Settlement (Settlement is when you have received the proceeds of your home).
9) Individuals aged 55-59 year old, if they receive the proceeds of sale prior to the 1st January 2023, they can make downsizer contributions from 1st January 2023 as long as the contributions are made within 90 days of receiving the proceeds.
10) 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 2022 tax 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's 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 2022-2023 financial year, you must contribute to your partner's super fund (either de-facto or married) by 30 June 2023 and your Spouse's Income (the sum of Spouse's assessable Income, total reportable fringe benefits amount and reportable employer super contribution) must be $40,000 or less in order to receive the full offset. If your Spouse's Income exceeds $40,000, the Tax Offset is progressively reduced until it reaches zero. Further, there is a matter of age. Currently, your Spouse must be under the age of 75, (And some more of the really fine print; your Spouse's total superannuation balance as at the 30th June of the previous financial year must not exceed $1.7m. and last but not least, your Spouse must not have made non-concessional contributions exceeding $110,000 in the 2022-23 year.

## 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 as her member's balance. Assume further that in the 2023 year the husband contributed the full $27,500 amount into his Superfund. The husband reconsiders and 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 "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 nearing $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 2023 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.

The 2023 Federal Budget was light on changes to income tax law. That was welcomed by the taxpaying society.

### 5.1 Claims for Motor Vehicle Running Costs- The log book method (we brought this forward from the 2022 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 year ends 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 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). |
| **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 a 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. |

**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

Taxpayers who rely on the cents per KM Method (i.e. for the 2023 year the rate is 78 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 | • 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).<br>• 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.<br>• Details of how the deduction claim was calculated, a description of each item and the dollar amount claimed.<br>• Be able to demonstrate how expenses were apportioned i.e. logbook or diary in conjunction with odometer records<br>• 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 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

As part of solution to the now looming housing crises, the federal Government is providing incentives to the non-government sector to fund investment of rental properties. If you are going to oblige the Federal Government, be sure the ATO is looking over your shoulders. In the 2023 financial year, the ATO continued its audit activity of rental properties.

| 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 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. |
| • 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 the 1st July 2017 |
| • Omitted Income and over-claimed deductions | • This was found to be common in accommodation sharing rentals such as Airbnb |
| • Also, be mindful that the holding cost of vacant land (even with a shed on it) is not tax deductible | • E.g. Land tax, shire rates & water rates and maintenance costs cannot be claimed on vacant land |

**Again, the onus is on the Tax Agents for the 2023 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 (i.e. invoice supported ) of all expenses** |

**The ATO has recently implemented a new residential investment property loans data matching program, so don't think that you can hide any capital gain from the sale of investment property or over claimed expenses deduction from the ATO.**

# 6. What else will be of interest to the Taxman for the 2023 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 2023 there were over 22,000 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 transaction.

## 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 (i.e. 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 2023 (Same as 2022)

| 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 2022-2023 Repayment Income Thresholds and Rates for 'HELP' Education Loans

| Repayment Income | Repayment Rate |
|---|---|
| Below $48,361 | Nil |
| $48,361 - $55,836 | 1.0% |
| $55,837 - $59,186 | 2.0% |
| $59,187 - $62,738 | 2.5% |
| $62,739 - $66,502 | 3.0% |
| $66,503 - $70,492 | 3.5% |
| $70,493 - $74,722 | 4.0% |
| $74,723 - $79,206 | 4.5% |
| $79,207 - $83,958 | 5.0% |
| $83,959 - $88,996 | 5.5% |
| $88,997 - $94,336 | 6.0% |
| $94,337 - $141,847 | 6.5 % etc |
| $141,848 and above | 10.0% |

Also be mindful that the HELP debt due to high inflation rates, all Help debts are is set to rise by 7.1% in June 2023

### 7.3 Claiming Home Office Expenses

COVID-19 has come to an end, there are a lot of people working back in the office. Things have changed in claiming work from home expenses. Given the changes, and exact replicate of your 2023 claim will trigger Big Bertha's warning. This, the ATO emphasis that ***"DO NOT COPY and PASTE"*** your prior year Home Office Expenses claim to 2023 Financial Year.

To make a claim for home office expenses, you must have spent the money, the expenses must be directly related to your earnings 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 proportioning 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 (e.g. coffee, milk etc.)

The methods and the record keeping requirements for calculating working from home deductions has changed for the 2022-2023 income years onwards. From the 2022-23 income year, the methods available to calculate working from home deductions are the revised fixed rate method and the actual cost method.

1. **Revised Fixed Rate Method**: This method apportions the following additional running expenses that you incur on a fair and reasonable basis by using a fixed rate of 67c per hour for each hour you worked from home during the income year.
    a. The rate covers the following expenses
        i. Energy expenses (electricity and gas) for lighting, heating, cooling and electronic items used while working from home
        ii. internet expenses
        iii. mobile and home phone expenses, and
        iv. stationery and computer consumables

    b. Individuals must be working from home while carrying your duties or your businesses and the work must be substantive and directly related to their Income producing activities. Minimal tasks such as checking emails or taking phone calls occasionally while at home does not qualify as working from home.

    c. The above rate does not include the decline in value of depreciating assets, repairs & maintenance of these assets and the costs associated with cleaning a dedicated home office. These can be claimed separately if the expenses were not reimbursed by the employer.

    d. You no longer need a dedicated home office

    e. Certain record-keeping requirements will need to be maintained in order to claim the use of this method.
        i. A record which represents the **total hours worked** from home for the period between 1 July 2022 -28 February 2023 (the records should be kept for a minimum of four weeks).

        ii. A record of **actual** hours worked from home between 1st March 2023 - 30 June 2023.

2. **Actual Cost Method:** This method allows you to claim a deduction for the actual work-related expenses.

    a. You can claim depreciation on home office furniture and furnishings, phones, computers, laptops or similar devices. You can also claim cleaning expenses, cost of electricity and gas for cooling and lighting, home and mobile phone data and internet expenses, stationery and computer consumables such as printer ink and paper etc.

    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. As a reinforcement; you must either keep a record of the number of actual hours you worked from home or a diary being a representative of a four week period to show your usual pattern of working at home. And you must keep all invoices, bills and other documents to evidence your claims.

You can choose one of the two methods to claim home office expenses for the 2023 Financial Year. As a big picture introduction, the substantiation obligations associated with the Actual Cost Method is the most demanding. The Fixed rate method the least demanding. However, that ranking also reflects the possible quantum of the amount that can be claimed.

### 7.4 Dr Chalmers has delivered his second Budget 10th May 2023- Some relevant matters

1. For all of you employers, just a reminder that as from the 1st of July 2023 the Superannuation Guarantee Rate will rise from 10.5% to 11%.

2. The Budget has seen the demise of the Low and Middle Income Tax Offset LMITO (maximum offset was $1,500). The replacement (survivor) is the Low-Income Tax Offset. If you earned: $37,500 or less, you will get the maximum offset of $700. If you earn between $37,501 and $45,000, you will get $700 minus 5 cents for every $1 above $37,500. If you earn between $45,001 and $66,667, you will get $325 minus 1.5 cents for every $1 above $45,000.

3. For those of you who are self-funded retirees and drawing an Account Based Pension, the 50% of the otherwise withdrawal rate will come to an end as from the 1st July 2023. The only logic for requiring the withdrawal at a higher rate is that the Federal Labor Government wants your super savings to be spent and thus circulating in the economy.

4. The Federal Government will keep in place its Home Guarantee Scheme- (HGS) in addition the Federal Government will offer two tax incentives for investors to increase the supply of rental housing by offering incentives for investments in built-to-rent accommodation, including:
   a. Increase the depreciation rate from 2.5 per cent to 4 per cent per year for eligible new build-to-rent projects where construction commences after 9 May 2023.
   b. Reduce the withholding tax rate for eligible fund payments from managed investment trusts to foreign residents on Income from newly constructed residential build-to-rent properties after 1 July 2024 from 30 to 15 per cent, subject to further consultation on eligibility criteria.

5. Small businesses (group-wide turnover less than $10 million) currently benefit from an unlimited instant asset write-off which is due to end on 30 June 2023. The Government will temporarily retain an instant asset write-off for the full cost of eligible assets costing less than $20,000 (excluding any GST credit) that are first used or installed for use between 1 July 2023 and 30 June 2024. The threshold of $20,000 will apply on a per-asset basis. Effectively, small businesses will be able to claim a tax deduction for the full cost of multiple assets.

6. Assets costing $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter.

7. The small business energy incentive will be available to businesses with a turnover of less than $50 million which allows an additional 20% deduction on certain expenditures towards electrification and more efficient use of energy. Up to $100,000 of total expenditure will be eligible, allowing a maximum bonus tax deduction of $20,000 per business.
   Eligible assets or upgrades will need to be installed and ready for use between 1 July 2023 and 30 June 2024 to qualify for the bonus 20% deduction.

8. For the payroll team, contribution as Payday Super which will commence from 1 July 2026 following which employers will be required to make superannuation payments at the same time as they make salary and wage payments.

9. There is to be a lodgment penalty amnesty program for small businesses with an aggregated turnover of less than $10 million to encourage them to re-engage with the tax system. The amnesty will remit failure-to-lodge penalties for outstanding tax statements lodged in the period from 1 June 2023 to 31 December 2023 that were originally due during the period from 1 December 2019 to 28 February 2022.

10. If you are feeling warm and fuzzy that the ATO loves you, there are also the reality check items. The 2023 Budget confirmed the earlier announcement made 28th February 2023 that tax concessions available to individuals with a Total Superannuation Balance greater than $3 million will be reduced from the 1st July 2025. The Better Targeted Superannuation Concessions' measure will bring the headline tax rate for impacted individuals to 30%, up from 15%, for earnings corresponding to the proportion of an individual's Total Super Balance ( TSB) that is greater than $3 million. The budget papers indicate that the additional tax will impact some 80,000 individuals in 2025-26, or approximately 0.5% of individuals with a superannuation account. The worst of the changes is that the $3m is not to be indexed. For you young folks, have a ponder; what will be the buying power of $3m in forty years?

## 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 some cases 30%) 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 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 the existing housing rate to the current overdraft rate.
- Those companies who hold have Pre-16 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 23rd February 2022 (The ATO has now made the Ruling Final and goes by the name: TD 2022/11)**

The purpose of the TD 2022/11 was to signal that from the 1st 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 2023 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 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 make at least yearly repayments.

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

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 <u>benchmark interest</u> rate for each year it is 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 4.77% 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.Matter of 100A reimbursement Agreements

Section 100A is an anti-avoidance rule that is applied where a beneficiary's trust entitlement arose from a reimbursement agreement. A reimbursement agreement is an arrangement under which a beneficiary is made presently entitled to trust income and; someone other than the beneficiary who ought to benefit receives a benefit in connection with the arrangement <u>and</u> at least one of the parties enters into the agreement for a purpose of reducing tax.-- When those conditions apply the ATO is not going to accept the distribution nor the intended outcome.

## 11. Self Managed Superfunds; Final ATO Ruling and the concepts of NALI and NALE; <u>The final outcome (Law Companion Ruling LCR 2021/2)</u>

The following paragraphs are relevant only for those of you who are Trustees /Members of s Self-Managed Superannuation Fund. The matter of NALI and NALE was first addressed in an email that we circulated with a special newsletter in August 2021 to those of you with SMSFs. We can now confirm that the ruling did not go away despite being considered by the Morrison Government and now the Albanese Government.

As a reminder, the letters NALI and NALE are abbreviations for, Non-Arms Length Income and Non-Arms Length Expenses.

Basically, the provisions of both NALI and NALE come in to play where an SMSF and another party are not dealing at arm's length and the fund incurs expenditure (or not) in gaining or producing ordinary or statutory Income. Date of effect: 1st July 2018 (yep it reaches back).

How does NALI work?

If the ATO identifies income that fits the definition of being NALI it is taxed at 45% within the Superfund.

What Income will be taxed as NALI? (i.e. to be taxed at 45%)

a) Parties not dealing at arm length and the Income earned in the transaction is more or less than would be expected in an length arms 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 an 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, it held a real 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 fair market value. Excess rent should never be the state of play between non-associates negotiating on a 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% on 2 times the total rent over payment. (See the simple example of the painter and the $2,000 lesser quote below.
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 SMSF and it needs a repaint. Doing the right thing you get three quotes. All tradesmen 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? NALE would catch this arrangement as it was not arms length dealing.

**How does the 45% tax rate work; Say in the last example you gave the painting job to your Brother as he was $2,000 cheaper than the next quote and it was concluded by the ATO that he was cheaper because he was your Brother. So your non-arms length dealing amount was $2,000. To determine the penalty tax to pay you use the following formula. Amount the quote was cheaper x 2 x 45%= tax to pay. So filling in the numbers. ($2,000 x 2) x 45%= $1,800.00. The $1,800 being the penalty. The only good news is that the uplift factor of 2 replaced the initial uplift factor of 5.**

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

## 12. 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



Kind regards,
Lane Taylor and the Team

## 13. 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**

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 2022/2023

### *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
- ❑ An Acknowledgement Letter from Superannuation Fund ro 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 2023 RENTAL PROPERTY DETAILS FORM

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

| | | |
|---|---|---|
| **2023 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) | |
| **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 neighbors)? | | |
| 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)<br>– repairing a broken window or resealing a leaking window;<br>– replacing broken bathroom tiles;<br>– repainting peeling or dirty internal walls;<br>– replacing rotten floor boards and/or polishing floorboards;<br>– 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:<br>• replacing the entire kitchen of the property;<br>• installing a new electrical switchboard to the property;<br>• replacing a timber window frame with an aluminum frame; | | |

| | | |
|---|---|---|
| • replacing an existing draped shower screen with a new fixed glass shower screen;<br>• adding an extra bedroom or bathroom to the property; and<br>• 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.*