CHANCELLORS 2021 BUDGET AND EOFY UPDATE

THE INFLATION RIDDLE

I was wrong … money does grow on trees! According to my extensive self-help library being optimistic is a good thing, and optimism generally breeds success. As we close out the 2021 financial year, optimism still seems to be in pretty good supply. In the face of ongoing virus and geopolitical challenges (China), sentiment, consumer spending and asset values are enthusiastically high.

What generates this optimism in the face of these serious challenges? Easy money of course! The money tree of choice by the central banks to kick the GFC can down the road was Quantitative Easing (QE). It works like this: Governments take on extra debt by issuing bonds to the financial markets. Central banks purposefully "buy" those bonds to keep bond yields (interest rates) low and to create extra liquidity in the banking system. This creates money that can be lent cheaply to businesses and consumers. Economic activity and hopefully growth occur when this money circulates and re-circulates. The amount of bonds held on central bank balance sheets appears to have increased by another $US 10 trillion ($10,000,000,000,000), and rising, in response to COVID. Australia's RBA kicked off QE here to the tune of $100b in November 2020 with another $100b at $5b per week announced in February this year.

Looking at the RBA balance sheet with an accountant's visor on causes a bit of head scratching. In very rough terms the movement in the balance sheet since COVID hit in February 2020 can be summed up by the following book entry:

Creating Money 101
Debit – Asset Australian Dollar Investments (Government Bonds) $200,000,000,000.
Credit – Liability Exchange Settlement Balances (Funds Available for Banks) $200,000,000,000.

Seems like a pretty good way to generate money out of thin air. In theory though, there is still the debt owing by the government who issued the bonds in the first place, being the face value of those bonds. QE can be contrasted with the dangerous sounding "Modern Monetary Theory" (MMT). Under MMT governments would spend, virtually without limit, on what they consider to be important programs, with additional spending being funded by simply 'printing' more money. A real money tree! Alarmingly one of the leading proponents of this theory is Professor Stephanie Kelton who has close ties to the Democrats.

Basic economics says that having extra money to purchase the same level of economic output causes Demand-Pull inflation. Perhaps this is avoidable to the extent extra is used to enhance economic productivity and efficiency. Remember that we are amid revolutionary digital and energy upheavals contributing to existing low inflation. Could the dividends to society from these continue to cancel out inflation? The supply side also needs consideration. Increasing regulatory and geopolitical barriers to extraction or production of materials, and regulatory barriers to employment can cause Cost-Push inflation. Inflation without economic growth is called stagflation which is bad but perhaps unlikely given the digital revolution. If inflation were to prevail well beyond COVID supply chain disruption an optimist would believe it is associated with growth, and that it could be managed with some "tapering" of central bank Quantitative Easing.

COVID has presented a unique opportunity for reform to allow the economy to run more efficiently. Businesses have visibly embraced this. There are stories everywhere of businesses working leaner and smarter off the back of COVID. Governments unfortunately seem to lack any plan or vision outside of the 24h news cycle. Government departments tend to resist efficiency for fear of shrinkage. Admittedly some coal-face departments have performed very well through COVID. Hopefully, opportunities are not wasted.

Here in the "lucky country" we are being held back by seriously broken industrial relations and taxation systems. Whilst the senate and state governments exist it is hard to see these problems being fixed. In terms of federal tax, the ATO must work with the ramshackle laws it is given. During COVID they suspended most compliance related activity and paid out extraordinary sums to businesses to keep them afloat. The sleeping giant has now officially awakened. Without reform Treasury and the ATO can only use the blunt tools they have to reduce government debt. A long-term trend visible to tax practitioners has been the marginalisation of tax arrangements with any degree of complexity or creativity. The time would seem right to tidy up and simplify your tax affairs where possible and look at areas that might be low hanging fruit for governments desperate to maintain their debt ratings. There will also be pressure for the ATO to reel in its debt book of around $53b. They have been quiet but may now have to pull the trigger on any zombie companies and businesses.

Growth and controlled inflation will hopefully assist in bringing down debt. Tax increases are another tool but can impact growth. Victoria has been off to a quick start with increases to growth inhibiting taxes such as Payroll Tax. The Qld Government's approach to thwarting the recovery is an attempt to set off cascading wage push inflation, by welshing on a promise to freeze MP wages until 2023. They have instead inflated pay levels between now and September 2022 at a rate of 5.46% p.a. A great precedent for the rest of government to now follow.

In terms of the inflation riddle, there are certainly elements present that could trigger an inflationary spiral. We can all feel inflationary pressure caused by inflated demand, asset price increases and COVID disruptions to supply. Economists including the RBA governor Philip Lowe as recently as 1 June, however, insist that underlying inflationary and wage growth pressure remains low and any spikes in the CPI above the magic 3% will be temporary. Sustained high inflation may not be inevitable. The fact that markets are currently very sensitive to the risk of inflation is probably a good thing as opposed to things like COVID and the GFC that took them completely by surprise.

As always, we wish you the very best for the forthcoming financial year and hope you find some value in the content below.

WHAT'S NEW?

Compulsory Superannuation Rate Increase from 9.5% to 10% - 1 July 2021	
The SG rate is currently legislated to increase from 9.5% to 10% from 1 July 2021. **Note** - it is also set to increase by 0.5% annually until reaching 12% on 1 July 2025.	😐
ACTION: *Check employment instruments to determine if total entitlements are inclusive of compulsory superannuation. For high income earners consider the impact of the Maximum Superannuation Base for the SGC which for 21/22 is $58,920 per quarter ($235,680 p.a.) which may limit necessary contributions. Employers need to be mindful that they cannot use an employee's salary sacrificed contributions to reduce the employer's extra 0.5% of super guarantee.*	

Increase in Super Contribution Caps (Due to Indexing) – 1 July 2021	
From 1 July 2021, the **concessional (pre-tax) contributions cap** will increase from $25,000 to **$27,500** p.a. and the **non-concessional (post-tax) contributions cap** will increase from $100,000 to **$110,000.** Activating "bring forward" where available, will allow total non-concessional contributions of up to $330k (up from $300k) in one year if triggered after 1 July.	🙂
ACTION: *Superannuation rules including contribution eligibility are complex. You should seek professional advice before contributing due to potential adverse outcomes from getting it wrong.*	

Total Superannuation Balance (TSB) Threshold Increases to $1.7m - 1 July 2021

The TSB cap imposes a limit based on your Total Super Balance, on your ability to make Non-Concessional (after-tax) contributions to boost your super balance. Due to indexing it will increase from $1.6m to $1.7m.

Comment: *To confuse us all there are two similar sounding caps of the same amount that have completely different purposes. Contrast the Transfer Balance Cap (TBC) below. Great to see the acronyms have two common letters as well. Acronyms are popular with Treasury DHs.*

ACTION: *Superannuation rules including contribution eligibility are complex. It is best to seek professional advice before contributing due to potential adverse outcomes from getting it wrong.*

Transfer Balance Cap (TBC) Threshold Increases to $1.7m - 1 July2021

The TBC cap limits the amount a person can transfer from accumulation phase in super to the tax-free pension phase. Members with a TBC set at $1.6m triggered using the old threshold is stuck with that unfortunately. A portion of the increase is available to members with a previous TBC triggered below $1.6.

Comment: *No, you are not seeing double. The TBC is another gift that just keeps on giving from the 2017 changes, penned by now retired assistant treasurer Kelly O'Dwyer, to dramatically reduce access to large tax advantaged super balances. Thanks for the complicated calculations Kel!*

ACTION: *Superannuation rules including contribution eligibility and transfers within super are complex. It is best to seek professional advice before implementing any super strategy due to potential adverse outcomes from getting it wrong.*

Fair Work Changes to Casual Employment Obligations

Under recent changes to the Fair Work Act 2009 the definition of "casual" has changed and employers now need to give every new and existing casual employee a Casual Employment Information Statement within certain timeframes.

The National Employment Standards also now include an entitlement for casual employees to become full-time or part-time (permanent) in some circumstances.

ACTION: *For more information consult your Industrial Relations advisor or check the Fair Work website. Note also that Fair Work now offer free workplace advice to qualifying applicants.*

Director IDs Are Coming

Every new and current company director will soon require a Director Identification Number (DIN). It is yet to be announced when the regulation will be activated. All existing directors will have 15 months to apply for a DIN from when the new law comes into place. All directors will be required to provide a number of documents to establish their identity with the Commonwealth Registrar in order to receive their unique DIN. This includes a driver's licence or learner's permit, passport, birth certificate, Australian visa, and Medicare card.

Comment: *Yes, more paperwork but this will be positive as it will cut down phoenixing by companies using false identities and homeless people for directorships. It will also fix the problem where some directors have multiple ASIC identities due to slight differences included on previous lodgements made under different companies or contexts.*

ACTION: *No action required. You are sure to hear about this when it begins.*

Draft Professional Practice Tax Guideline Finally Released

The ATO don't like "individual professional practitioners" (IPPs) underpaying themselves and sending profits around their family groups to be taxed at lower rates. In 2015 they published guidelines on their website largely aimed at the growing trend within professional groups to structure as partnerships of trusts with limited wages or distributions going through to the practitioner. In December 2017 they suddenly pulled down the guidance after realising that it was not well framed and allowed professional groups to aggressively income split under the supposed protection of an ATO Safe Harbour (Oops!). From December 2017 until March 2021 there was a vacuum in relation to guidance. This was broken by the release of Practical Compliance Guideline PCG 2021/D2 and an accompanying fact sheet.

The draft guidelines provide a complicated framework for practitioners to self-assess the risk of adverse ATO action. There are two gateways that determine whether you need to go further into the assessment:

Triggers for Deeper Risk Assessment

Gateway 1: *This is essentially a subjective assessment of whether there is a **genuine commercial rationale** for the arrangements and that they are **properly documented**.*

Gateway 2: *This requires consideration if there are any **"high risk features"** present in the arrangements. This includes features covered in any ATO Taxpayer Alerts or features such as non-arm's length transactions (whatever that includes) and situations where multiple classes of shares and units with holdings by non-equity holders.*

If you are drawn in by either of these muddy "gateways" then you determine a risk score to determine the extent that you could be in trouble. The risk score is based on three factors:

Factors Governing Risk Assessment

1. *Proportion of profit entitlement from the whole of firm group returned in the hands of the IPP.*
2. *Total effective tax rate for income received from the firm by the IPP and associated entities.*
3. *Remuneration returned in the hands of the IPP as a percentage of the commercial benchmark for the services provided to the firm.*

Once finalised, the Guideline will apply prospectively from 1 July 2021. The application of the Guideline will be reviewed from 2022.

Comment: *These draft guidelines if left unchanged will simply create a world of uncertainty and a situation where the ATO position will be at odds with the law and will eventually trampled over by a court or tribunal. Accounting and Tax bodies have been scathing at the lack of consultation and failure to adequately recognise that income and profit can be generated from the business as distinct from the personal exertion of the practitioner. One for the "shame file" Derryn!*

ACTION: *It is wise to ensure that the financial relationships between the people and entities involved in professional practices are similar to what they might be if all parties were unrelated, including entities and individuals within individual family groups.*

FBT Exemption on Devices Extended

Small business entities or employers whose ordinary and statutory income for the income year ending most recently before the start of the 2021/22 FBT year is less than $50 million that provide their employees with more than 1 qualifying work-related portable electronic device can access the FBT exemption even if the additional items have substantially similar functions as the first device. ***Comment:*** *The devices must be "primarily for use in the employee's employment".*

ACTION: *Consider packaging these items for employees. This will simplify tax claims and enable a GST claim that would not be available to them personally.*

FBT Exemption for Car Parking Extended

An exemption applies to car parking benefits provided in respect of the employment of an employee if certain conditions are satisfied. From 1 April 2021 this includes businesses with aggregated turnover up to $50m (Up from $10m).

Comment*: The exemption does not apply to cars parked at a "commercial parking station". That term is defined very widely and unreasonably so. Dual purpose car parks such as in buildings where some of the parks are leased to a commercial operator could be problematic.*

ACTION: *There are numerous potential benefits of packaging parking including improving tax deductibility, ability to claim GST credits, COVID safety, employee flexibility and access to customers and suppliers.*

Various Small Business Tax Concessions Extended to Medium Businesses

From 1 July 2020 a new threshold of $50m aggregated turnover (up from $10m) applies for the following small business concessions making them now small <u>and medium</u> business concessions:

- Deductibility of prepaid business expenses up to 12 months in advance (see below).
- Immediate write-off of certain start-up expenses.
- Simplified valuation of trading stock. *This concession is of very limited use.*
- PAYG instalments based on GDP-adjusted notional tax.
- Standard 2-year period for amending tax assessments.

Comment: *The thresholds for various tax concessions and attributes keep being changed and are now so varied that it is utterly confusing attempting to apply them from year to year.*

ACTION: *Tell your local member to push for tax reform. Treasury is not doing anyone any favours with all this piecemeal tax policy.*

Payment Times Reporting Scheme (PTRS)

The Federal Government created the Payment Times Reporting Scheme in January this year. The scheme aims to improve payment times for Australian small businesses from large customers (combined total income > $100m). The idea is that these large businesses must report their payment time performance to make them more accountable to the community at large.

Comment: *The bullying of small suppliers with extended payment terms is a cheap form of finance for large corporations and has been rife, so much so that a supply chain finance industry has evolved from it. A bottom-feeding industry like that was always destined to fail, hence the demise of Greensill.*

ACTION: *If your business suffers from delayed payments from large suppliers it might be worth checking this scheme out. The system appears clunky at first glance and appears to require you register as a supplier to access the data. It might be that you are visible to your customers on the system which does not seem ideal?*

BUDGET 2021/2022 (AS ANNOUNCED)

PERSONAL TAX

Resident Individual Tax Rates Remain Unchanged for FY2022:

Rate	2020-21 & 2021-22	From 1.7.2024
Nil	$0 - $18,200	$0 - $18,200
19%	$18,201 - **$45,000**	$18,201 - $45,000
30%	NA	$45,001 - **$200,000**
32.5%	**$45,001** - **$120,000**	N/A
37%	**$120,001** - $180,000	N/A
45%	$180,001 +	**$200,001** +
Medicare Levy	Up to 2%	Up to 2%
Low and middle income tax offset (LMITO)	Up to $1,080	N/A
Low income tax offset (LITO)	Up to $700	Up to $700

***Comment:** The Stage 3 personal income tax cuts remain unchanged and will commence, as already legislated, in 2024-25. These were designed to address bracket creep and bring our personal tax rate progression in line with other OECD countries. The Labor party are making noises about reversing these if in power though, true to Albanese form, are playing it as an each-way bet for the time being.*

Low and Middle Income Tax Offset (LMITO) Retained for FY2022:

The LMITO of up to $1,080 was due to be removed from 1 July 2021. It has now been extended for the 2022 year. Here's how it applies:

Taxable income	Offset
$37,000 or less	$255
Between $37,001 and $48,000	$255 plus 7.5 cents for every dollar above $37,000, up to a maximum of $1,080
Between $48,001 and $90,000	$1,080
Between $90,001 and $126,000	$1,080 minus 3 cents for every dollar of the amount above $90,000

***Comment:** This offset has a fairly dramatic effect on effective marginal tax rates, especially up to the $48,000 income threshold. Good luck to any government looking at withdrawing this offset anytime soon.*

Employee Share Scheme (ESS) Tweaks:

The cessation of employment taxing point for qualifying tax-deferred Employee Share Schemes (ESS) will be removed effective from the tax year following Royal Assent. Further changes will also increase access to ESS by smaller employers through reduction of regulation.

***Comment:** Currently it is possible to have a tax trigger on cessation of employment in circumstances where the shares are yet to fully vest.*

PERSONAL TAX

New Individual Tax Residency Tests to Come: The Government will replace the existing tests for the tax residency of individuals with a primary test under which a person who is physically present in Australia for 183 days or more in any income year will be an Australian tax resident. The new rules will apply once legislation is passed. The rules will follow the recommendations of The Board of Taxation in its 2019 report Reforming individual tax residency rules — a model for modernisation. ***Comment:*** *Based on the report and recommendations the new rules will enable more clarity though are likely to reduce opportunities to sever Australian tax residency.*	😐

BUSINESS TAX

Temporary Full Expensing of Eligible Depreciating Assets to Run for Another Year: Included in the 2020/21 Budget was an additional layer of COVID recovery asset write-offs applying to the business portion of **new** depreciable assets acquired and installed from 6 October 2020 to 30 June 2022, for businesses with aggregated turnover of up to $5 billion. It was announced that this will extend to 30 June 2023. ***Comment:*** *There are now multiple intersecting regimes for immediate write-off of depreciating assets. We have included a summary in a separate section (below) showing how the various measures interact.* ***Opportunity:*** *Accelerated or immediate write-off of eligible assets can provide a tax deferral. When combined with Temporary Loss Carry Back (see below), asset write-offs can result in a refund of prior year tax paid where a loss is triggered and can be carried back.* ***Warning:*** *Depreciation – something that was previously very straight forward, is now not. As also outlined below, careful consideration needs to be given to the impact/treatment of depreciation on financial statements. Also consider the impact of lost future deductions.*	🙂
Temporary Loss Carry Back Rules Extended to Include 2023 Losses: The 20/21 Budget in October 2020 introduced the opportunity to elect to claim 2020, 2021 or 2022 losses retrospectively by applying them to prior years back to 2019. This election will now be extended to include 2023 losses. ***Comment:*** *The tax refund available under this measure is limited by requiring that the amount carried back is not more than the earlier taxed profits and it does not generate a franking account deficit.*	🙂
Self-Assessment of Intangible Write-Offs: For eligible intangible depreciating assets, such as patents, registered designs, copyrights, and in-house software acquired from 1 July 2023, businesses will be able to self-assess effective life. ***Comment:*** *Currently these tax write-offs are over a fixed extended period. This change will allow quicker write-offs in many circumstances which is hoped will boost innovation and digitisation.*	🙂
Super Guarantee $450/month Threshold to be Removed: Employers will be required to make quarterly Super Guarantee contributions on behalf of such low-income employees earning less than $450 per month (unless another Super Guarantee exemption applies). It appears persons under 18 working 30h a week or less continue to be exempt. Expected Start Date = 1 Jul 2022. ***Comment:*** *This exclusion was previously in place for administrative simplicity and to avoid small super balance wastage. Those problems have been partly fixed however this change will add to the administrative burden of being an employer.*	🙁

BUSINESS TAX

Small Businesses can Tell ATO to Back Off on Disputed Debts:

Small business entities (including individuals carrying on a business) with an aggregated turnover of less than $10 million per year will be able to apply to AAT to pause or modify ATO debt recovery actions, such as garnishee notices, where the debt is being disputed in the Tribunal. This will commence once the legislation receives Royal Assent.

Comment: *Robert Gottliebsen's crusading in the Australian for small business against bullying by the ATO is being heard.*

SUPERANNUATION

Contribution Work Test Partially Removed from 1 July 2022:

The superannuation contributions work test exemption will be repealed for voluntary non-concessional and salary sacrificed contributions for those aged 67 to 74 from 1 July 2022. Individuals aged 67 to 74 years will still have to meet the work test to make personal deductible contributions.

Comment: *Given the other restrictions on maximising your super balance, particularly the Total Superannuation Balance Cap ($1.7m from 1 July 2021), the work test is to some extent redundant in terms of limiting Non-Concessional Contributions. The Government confirmed that individuals under age 75 will be able to access the non-concessional bring forward arrangement if they otherwise qualify. If this is the case, there are contributions beyond age 75 being brought forward which has never been allowed before.*

> ***Opportunity:*** *This will allow some extra flexibility for withdrawal and re-contribution to reduce "taxable component" of balances and for equalisation of balances between spouses.*

Tax Residency Requirements Eased for SMSFs:

The central management and control test temporary absence safe harbour will be increased from 2 to 5 years, and the active member test will be removed from 1 July 2022.

Comment: *Change of residence of a SMSF can render it non-complying which is an irreversible disaster. The active member test precluded contributions from non-residents having 50% or more of the total balance in the fund. These changes allow more flexibility for temporary re-locations.*

> ***Warning:*** *If you re-locate or plan on spending extended periods out of Australia you need to consider the impact on your SMSF.*

SMSF Members Opportunity to Switch from Legacy Income Stream Products:

Individuals will be permitted to exit a specified range of legacy retirement products, together with any associated reserves, for a 2-year period. The measure will include market-linked income streams (MLIS), life-expectancy and lifetime products. Exits will be possible for 2 years commencing from the beginning of the first financial year after Royal Assent of the enabling legislation. Likely Start Date = 1 July 2022.

Comment: *This is a welcome change which will simplify administration of funds that took on these products in order to maximise benefits under previous rule regimes.*

> ***Opportunity:*** *Transferring benefits out of legacy income streams to ordinary pension or accumulation accounts allowing simplification and more flexibility.*

> ***Warning:*** *Available for a limited 2-year time only. Need to consider impact, if any, on social security benefits and tax implications if reserves are involved.*

SUPERANNUATION

No News on Allowing SMSFs a Six Member Maximum:

The 2018/19 Federal Budget announced an increase to the maximum number of SMSF members from 4 to 6. This is currently waiting on the Senate.

Comment: *This measure is positive for SMSFs though apparently contrary to the wishes of the ever-powerful union-based industry fund lobby who don't want to have to compete with SMSFs. It will be interesting to see how much power this lobby exerts over our well principled senators.*

Downsizer Contributions Eligibility Age Reduced from 65 to 60 from 1 July 2022:

Individuals aged 60 or over will each be able to make an additional non-concessional contribution of up to $300,000 each from the proceeds of selling their home. Qualification criteria include that either the individual or their spouse must have owned the home for 10 years.

Comment: *This is an important concession as it is exempt from the Total Superannuation Balance Cap of $1.7m (from 1 July 2021) normally applicable to non-concessional contributions.*

> ***Opportunity:*** *The ability to make one-off additional non-concessional contributions of $300k per member if you sell a home you have owned for 10 years or more and satisfy some other criteria. Despite the confusing name, remember you don't actually need to downsize at all. All that is required is a sale.*

> ***Warning:*** *Strict requirements and timeframes apply including a 90-day time limit to contribute upon receipt of sale proceeds. For members under 65 normal preservation rules will apply to these contributions.*

First Home Super Saver Scheme Expanded to $50k Maximum Release from 1 July 2022:

The scheme allows voluntary concessional or non-concessional superannuation contributions to be withdrawn to assist in the purchase of a first home.

Comment: *This scheme appears to have very little take up given that it is quite fiddly. With affordability and intergenerational wealth differences as they are, the 'bank of mum and dad' is a big help if available.*

> ***Opportunity:*** *Voluntary contributions to super since 1 July 2017, up to the existing limit of $15k per year will count towards the total $50k (or $100k per couple) available for release from super. This can be quite tax effective if it involves concessional contributions from funds that may not have otherwise gone into super. The option exists for the bank of mum and dad, if willing, to help fund these contributions.*

COVID Reduced Pension Minimums Extended to FY2022:

The government reduced the minimum annual payment required for account-based pensions and annuities, allocated pensions and annuities and market-linked pensions and annuities by 50% for the 2019–20 and the 2020–21 financial years. Not announced as part of the budget, but by media release on 29 May 2021, the government has extended the 50% pension minimum reduction for a further year to 30 June 2022.

Comment: *The rationale behind the reduced minimums is to minimise the need to sell investments into depressed markets to fund pensions. Given the extent of the recovery in investment markets it is hard to see the need to prolong this concession beyond FY2022.*

Government Pension Loan Scheme Tweaked:

The government, via Services Australia, operates its own reverse mortgage scheme for qualifying applicants. The scheme allows senior Australians to get a loan from the government against their home to supplement their retirement income. Current interest rate is 4.5% p.a. compounding fortnightly. ***Comment:*** *Budget changes are designed to increase the uptake of this scheme. For more details go to Services Australia.*

Budget Comment:

Parliamentary delays in dealing with tax legislation over recent years have become chronic. This creates a great deal of uncertainty. Interestingly the 2021/22 budget announcements have pushed back most measures to at least 1 July 2022 and have new language around start dates for various measures. Instead of saying something will start at a particular date the language is now "The measure will have effect from the start of the first financial year after Royal Assent of the enabling legislation". A good bureaucratic way of dealing with a problem without solving it. Run through the BS converter, what they are really saying is "*parliament is so dysfunctional we have no real idea when this stuff can be legislated or whether it will even get through but it sure as hell won't be in time for a 1 July 2021 start date*".

UNTANGLING THE WEB OF INSTANT WRITE-OFFS

The concept of instant asset write-off (IAWO) has been with us for almost 20 years, originally introduced as part of the "Simplified Tax System (STS)" for small business taxpayers which commenced back on 1 July 2001. Over the years the turnover threshold for who qualifies as a "small business" has increased from the original threshold of $1m to its current threshold of less than $10m, and the asset write-off threshold has increased and decreased pursuant to the political whim of the government at the time as follows:

Period	Write-Off Threshold
1 July 2001 – 30 June 2012	$1,000
1 July 2012 – 31 December 2013	$6,500
1 January 2014 – 15 May 2015	$1,000
16 May 2015 – 28 January 2019	$20,000
29 January 2019 – 2 April 2019	$25,000
3 April 2019 – 11 March 2020	$30,000
12 March 2020 – 6 October 2020	$150,000
7 October 2020 – 30 June 2022 (Temporary Full Expensing)	No limit
1 July 2022 – 30 June 2023**	No limit
1 July 2022 (1 July 2023**)	$1,000

** Announced Extension – To Be Legislated.

Medium businesses (turnover $10m to less than $50m) gained access to IAWO from 2 April 2019 as part of the 2019-20 Federal Budget measures. Then in 2020, the government introduced additional depreciation incentives, including **Backing Business Investment (BBI)** and **Temporary Full Expensing (TFE)** to help small, medium, medium-large (turnover $50m to less than $500m) and large businesses (turnover $500m to less than $5bn) recover from the impacts of COVID.

Each of these new measures comes with its own eligibility criteria, opt out options, inclusions, and exclusions (which we have covered in some detail in previous newsletters) and is also covered in the helpful high-level summary which has been prepared by the ATO which is attached to this newsletter.

COMMENTS/WARNINGS:

1. **While it is not possible businesses to opt out of claiming IAWO, it is possible for some businesses to opt out (on an asset by asset basis) of claiming BBI and TFE. Reasons for doing this would include not wanting to generate substantial tax losses that may not be able to be utilised in later years (eg if the company or trust loss rules are not satisfied) or to avoid loss of franking credits by trusts in an overall loss position. General deprecation rules (using effective life) would apply to assets not subject to BBI or TFE rules.**

2. **Note, however, it is not possible for small business entities using simplified deprecation (most of our clients) to opt out of BBI and TFE without first electing to stop using simplified depreciation rules (which includes SBE pooling). The effect of an such an election in FY2021 would be as follows:**
   a. **Optional application of BBI rules for the period 1 July 2020 – 30 June 2021.**
   b. **Optional application of TFE rules for the period 6 October 2020 – 30 June 2021.**
   c. **Application of general deprecation rules (using effective life) for the period 1 July 2020 – 30 June 2021 for assets not subject to BBI or TFE rules.**
   d. **Non-optional write-off effective 30 June 2021 of any remaining SBE general pool balance carried forward from 30 June 2020 (pool balance below FY2021 instant asset write-off threshold).**

3. **Depending on the level of assets purchased in FY2021 (or FY2022 and/or FY2023) it may not be worthwhile for SBEs to elect out of using simplified deprecation.**

4. **Previously, lock out rules prevented small businesses who elected to opt of simplified deprecation from re-entering the simplified deprecation system for 5 years. These rules have been suspended from 13 May 2015 – 30 June 2022 (2003 to be legislated).**

5. **Entities that have stopped using the simplified deprecation rules, and then start using them again in a future year will have an opening SBE pool balance in that year equal to the business use portion of the written down value of any depreciating assets not previously allocated to the pool.**

Please contact us if you have any queries regarding the application/impact of these various measures.

YEAR END HOUSEKEEPING AND REMINDERS

Here we outline some important year end issues. Please contact us if you would like to review your individual circumstances.

INDIVIDUALS

- ☑ **Home Office Expense Shortcut:** The temporary home office expenses shortcut was extended to 30 June 2021 so remember to compile a record of work from home hours to stake your 0.80c per hour claim.

- ☑ **Prepayments Deductible For 2020/21:** An immediate deduction can be claimed by an individual incurring deductible non-business expenditure (eg – loan interest on rental properties or investment portfolios) provided the prepayment does not exceed 12 months and the eligible service period ends in the next financial year. ***WARNING:*** *If a prepayment does not meet the 12-month rule, an immediate deduction cannot be claimed. Instead, the deduction must be apportioned over the eligible service period or 10 years, whichever is less.*

BUSINESS

- ☑ **Compulsory Super Increase:** SGC rate rise to 10% from 1 July 2021. See coverage in "What's New" section (above).

- ☑ **Prepayments Deductible for Small and Medium Businesses in 2020/21:** Similar to individuals (above), an immediate deduction can be claimed by small business entities (aggregated turnover less than $10m), *and from 1 July 2020 by medium business entities (aggregated turnover less than $50m)*, incurring deductible business and/or deductible non-business expenditure provided the prepayment does not exceed 12 months and the eligible service period ends in the next financial year. ***WARNING:*** *Again, if a prepayment does not meet the 12-month rule, an immediate deduction cannot be claimed. Instead, the deduction must be apportioned over the eligible service period or 10 years, whichever is less.*

- **Don't Forget TPAR Reports:** Taxable Payments Annual Reports (TPAR) disclosing payments to contractors or subcontractors in industries such as building & construction, cleaning, courier and road freight, IT services, and security are due by 28 August each year. The purpose is to allow data matching to avoid under-declaring of income. ***WARNING:*** *The ATO think there were 60,000 reports not lodged out of an expected 280,000 for 2020 so they could get mad about it.*

- **Review Accounting Standards for Depreciation:** COVID related immediate asset write-offs could be distorting your financial reports. Depending on how you use those reports you may want to consider running separate depreciation for tax and accounting purposes.

- **Review Accounting Standards for Tax:** COVID related write-offs and non-assessable stimulus can introduce large differences between tax and accounting income. Business owners should consider whether it is worthwhile recognising deferred tax or future tax benefits on the balance sheet.

- **Review Bad Debts Pre 30 June**: COVID-19 circumstances may bring some debtors within TR 92/18 write off guidelines. ***WARNING:*** *It is necessary to have evidence that the decision to write off a bad debt was taken on or before 30th June. A minute or evidence that the accounting entry was made at the time is sufficient.*

- **Small Business Superannuation Clearing House (SBSCH):** The threshold for access to the free Small Business Superannuation Clearing House remains at 19 or fewer employees or annual aggregated turnover of $10m or less. Users of SBSCH should ensure that payments to them are received by 23 June 2021 for the purpose of claiming a tax deduction in the 2020-21 income year.

TRUSTS

- **Trust Distributions:** Distributions must be determined by trustees prior to 30th June. Each year we assist by sending draft minutes to clients. Added complexity due to the on-going reform of trust tax law, and administrative hurdles imposed by the ATO, means that special attention must be paid to these minutes. It is important to inform us about any out of the ordinary income, capital gains or other transactions of your trust. ***WARNING:*** *Failing to give proper consideration to how various components of your trust income will be distributed can result in payment of unnecessary tax which is irreversible. It is not possible to alter trust distribution minutes after 30 June.*

COMPANIES

- **Company Tax Rate:** The tax rate for qualifying "base rate" entities (essentially companies in receipt of business income) with aggregated turnover < $50m will drop from 26% to **25% from 1 July 2021.** Other companies continue with the 30% tax rate.

- **Franked Dividends:** The overall incidence of tax can be reduced by careful timing (and streaming if possible) of franked dividends. Consider if declaring a dividend prior to 30th June is beneficial. ***Comment:*** *Companies heavily loaded with franked profit reserves should consider the possibility of further changes to company tax rates or the franking system that might reduce the value of stored franking credits.*

SUPERANNUATION

- **Ensure SMSF Minimum Income Stream Payments Have Been Made to Members:** SMSFs paying income streams/pensions to members must ensure minimum required payments have been made by 30th June in order to preserve tax exemption. ***Comment:*** *The government reduced minimum required pension drawdown levels by 50% for the 2019–20 and the 2020–21 financial years. This is a COVID-19 measure to allow funds to manage investment volatility. Our SMSF pension clients have been advised of 2021 pension levels on completion of 2020 tax returns and subsequent follow-ups. If you are unclear, please contact us.*

- **SMSF Documentation & Valuations:** Self-managed superannuation funds that hold property or unlisted, irregular assets ideally should obtain external market valuations annually, or at least once every three years. For properties, that can be a written appraisal from a real estate agent. This should include an analysis of comparable sales or market rents/yields. For unlisted assets, such as private company shares or trust units, data may include financial reports, meeting minutes etc. There is some limited scope for trustees to sign off on their own valuations if based on sensible data.

- **Consider Maximising Concessional & Non-Concessional Superannuation Contributions & Avoid Breaching Contribution Caps:** The standard 2020/21 contribution caps for those eligible to contribute are: $25,000 Concessional and $100,000 Non-Concessional. Check with us to see if you are eligible for higher amounts using concessional contribution carry forward or non-concessional contribution bring forward. ***Comment:*** *Contributions must be received by the superannuation fund by 30th June. It is best to arrange payments early as there can be administrative delays.*

- **Document Personal Superannuation Deductions:** Individuals intending to claim a tax deduction for super contributions made personally must provide their fund a notice of intention to claim. The ATO has reported a high failure rate on this since the scrapping of the 10% rule which restricted personal deductions pre 1 July 2017.

- **SMSF Investment Strategy Maintenance:** Consider whether your SMSF investment strategy needs updating particularly in light of COVID impacts on investments.

ACCOUNTING AND DOCUMENT MANAGEMENT

- Ensure you have up to date data for year-end planning. With modern cloud-based technology such as Xero and Sharesight, along with document management solutions such as Hubdoc, it is quite simple to have your accounting up to date real-time - a major advantage in navigating financial year end and ensuring your tax settings are optimised!

ATO TARGETS

The ATO arguably did a very good job in managing the very quick rollout of stimulus to offset the shock and hardship triggered by lockdowns. Up until the end of calendar 2021 they diverted compliance staff to these measures and generally opted for a very soft and forgiving approach to tax compliance and collection of tax debts. It is now back to business as usual and the ATO would be under considerable pressure to deliver.

Work Related Expenses: According to guidelines on substantiation of work-related expenses from the ATO people have limitless time for pettiness. Each year the ATO are very conspicuous in the press with warnings against overclaiming work expenses. The warnings are designed to encourage taxpayers to be voluntarily conservative in their claims given the high cost of enforcement in relation to small amounts. The substantiation bar is set unrealistically high by the ATO, particularly in relation to apportionable expenses (such as for communication costs) and arguably beyond the intention of the legislation.

Tim Tams are a No Go According to ATO: The ATO are clearly concerned about a high volume of self-assessed ambit claims for COVID work from home expenses. On a dedicated page for WFH claims they stress that “the cost of coffee, tea, milk and other general household items your employer may have provided for you at work” can’t be claimed in the WFH context despite being deductible in ordinary workplaces.

What Does Your Car Say About Your Tax Return? Despite the pandemic Lamborghinis are racing out the door, however if you have bought an expensive car but are showing low taxable income you could be being ‘data matched’ into some attention from the ATO. Data matching by the ATO includes matching data from eight state and territory motor vehicle registries to taxable income as part of their assessment of risk of understatement of income.

ATO to Expand Data Matching to Check Residency: The Department of Home Affairs will now provide the ATO with arrival and departure records of travellers to and from Australia for the 2016–17 to 2022–23 financial years. Tax residency of individuals, particularly those trying to remove themselves from the Australian tax system, has been difficult for the ATO to manage. This has resulted in new rules announced in the budget. Residency often hinges on intentions, living arrangements and ongoing connections with Australia, all of which can be muddy. A common theme in the cases that come to light is comparison of stated intentions and circumstances with travel documentation such as departure cards.

Crypto Warning: The ATO recently flagged they will be on the alert for cryptocurrency transactions. It appears they are able to requisition data from cryptocurrency exchanges as part of their now very broad data-matching powers. The ATO website provides some guidance suggesting the transactions are either capital gains or losses, or if trading is more organised, revenue gains or losses. Alternatively, you may be able to fit within the "Personal Use Asset" narrative on the basis you just hold cryptocurrency short term as currency simply to pay for things. In that case capital gains you make from crypto assets acquired for less than $10,000 are disregarded for CGT and all capital losses you make are disregarded. We have not yet seen "hobby" raised as an option, though latecomers to crypto gambling may be seeking to push the 'business trader' to try and claim immediate deductions for all their losses!

Independent Review Available for Tax Disputes Involving Small Businesses with Turnover Less Than $10 Million: The ATO have been in for some criticism for dealing aggressively with small businesses. They have now formalised this optional process described along these lines: "the service provides you with an additional option to achieve an early and fair resolution of your dispute, where you disagree with the audit position on most income tax and indirect tax obligations. It complements your existing options for independent review available through the objections process."

ATO Now onto the Next 5,000: The ATO have well-resourced programs and data matching enabling them to assist wealthy private groups with their "tax performance". They have reported that they have already been in touch with the top 500 in order to 'help them out' and they are now ready to move onto the next 5,000 down the list. According to their website this drags in "entities linked to an Australian resident individual who, together with their associates, control wealth of more than $50 million". Not sure how they track that down but if you have purchased beachfront at Byron or Sunshine lately you might be on the list. The timeframes for these reviews seem to be 3 months' notice prior then ten weeks to respond. Dealing with such a review is costly so audit insurance would no doubt come in handy. For more information go to the ATO Website.

ONGOING PROBLEM AREAS

Problem areas within Australian Taxation are numerous. Here is a selection of issues that tend to keep us awake at night:

- ⚠ **Division 7A:** Division 7A is designed to penalise or discourage access to private company profits via loans, gifts, or private use of company assets. Changes were announced in the 2016/17 Budget including introduction of 10-year Division 7A compliant loans with higher interest and different repayment structures. Implementation has been deferred multiple times with no 2021/22 Budget update as to when the changes will occur.

- ⚠ **Small Business CGT Concessions Complexity:** With the addition of another layer of eligibility criteria operating from 8th February 2018 the very generous CGT Small Business Concessions have arguably become almost too costly and complex for the small business community they are meant to benefit.

- ⚠ **Superannuation Guarantee Charge:** There is simply no room to move in terms of SGC compliance. If you are late or short on compulsory contributions, you get smashed and these days risk reputational damage due to the "wage theft" outrage industry.

⚠ **Payment of Trust Entitlements:** Promised guidance from the ATO on their new interpretation of the scope of S100A Reimbursement Agreements has still not materialised. Trustees have been left hanging on this one since the ATO kicked off a scare campaign in May 2016. The uncertainty impacts the way trusts 'pay' distributions. The best policy at this stage is to pay unpaid present entitlements as they build up, as direct cash payments to the beneficiary, or as expenditure by the trust on behalf of the beneficiary.

TECH CORNER (Not Just for Geeks!)

A recent report by MYOB says that approximately 20% of the 2.29 million (ABS February 2021) sector – are not engaged with digital tools across critical areas of their business workflow, such as compliance and supplier management. The report also surveyed that 24% of SMEs are worried new technology is too expensive and a further 24% do not have the time to set it up. Certainly, the latter could be a valid claim given the events of the last year or so but thinking that technology is expensive is just outright wrong. "Software as a service" (SAAS) solutions are advancing at an incredible pace and are very cheap to implement in the correct combinations compared with the savings and improvements they can generate. These solutions have already incorporated technologies such as open-source data sharing, GPS, mobile phone technology, facial recognition, optical character recognition (OCR), and are now incorporating early stage artificial intelligence features which further save manual work.

E invoicing Gets a Budget Boost: Driving efficiency through digitisation is a hot topic. Treasury is onto it with increased adoption of E-invoicing to be allocated $15.3m as part of a $1.2b digitisation drive. The ATO support accuracy and efficiency of E-invoicing and have some good resources on it. "Electronic invoicing (or e-invoicing) is the automated digital exchange of invoice information directly between a buyer's and supplier's accounting systems. With e-invoicing there will no longer be a need for businesses to generate paper-based or PDF invoices that must be printed, posted, or emailed. Buyers will no longer need to manually enter or scan these into their accounting system." E-invoicing technology has already been embraced by major SAAS accounting software providers such as Xero & MYOB.

The Robots Are Coming: The next phase in cloud add-in technology has arrived. It is fascinating watching the digital revolution working through the accounting industry. It started with bank feeds to desk-top applications. The advent of true cloud accounting, pioneered by Xero, was a major accelerant of the revolution. The cloud has enabled all manner of collaboration, and document and data sharing by individuals and software. The latest emerging development is the use of add-ons to effectively audit and analyse accounting data such as within Xero. Apps such as XBert and Dext Precision (formerly Xavier) analyse and report on accounting data real time with warnings and exception reports that track key benchmarks or report transactions that look out of place or results that may be of concern.

Get Real About Cyber Scammers: COVID has seen a boost in scamming and increasing sophistication of the techniques. Here are some suggestions and reminders on how to stay safe. Why make it easy for this scum?

- ☑ Do not click on links unless you have properly verified the source.
- ☑ Ensure you have strict policies and education at work and home about potentially harmful links and files.
- ☑ Do not switch off warnings such as appear when opening executable files.
- ☑ Be very careful with your Identity. Keep documents and numbers secure and be careful sending things such as tax file numbers by email.
- ☑ Be careful about what you post on social media.
- ☑ Be careful to verify the source of invoices and statements received by email.
- ☑ If you specify bank details for money to be deposited, make sure it is in a format that can't, be altered and always double check.
- ☑ Be very alert if contacted by someone purporting to be from a government agency such as the ATO. They generally don't operate that way.
- ☑ Check known scams using resources such as Scam Watch and ATO Scam Alert.
- ☑ Consider filing your data in the cloud with a reputable provider rather than on a drive or server that can be compromised.
- ☑ Use complex and unique passwords for everything and update them from time to time.

- ☑ Use a password manager to keep track of passwords and important personal data. We have found Dashlane to be good.
- ☑ Use a VPN when dealing with personal information outside of your home or office network. Dashlane comes with its own VPN.
- ☑ Install and maintain a reputable virus protection application. Make use of inbuilt defences such as Windows Defender.
- ☑ Keep your device operating systems and software up to date.
- ☑ Use multifactor authentication wherever it is available.

There are plenty of further suggestions and resources about this on-line. Better to be safe than sorry.

The ATO App Has Achieved 2.5 Stars in Apple App Store – Our Rating is 0.5: Our in-house Zoomer Rebekka recently put ATO app through its paces. Here's what she found:

- A phone filler: "I don't really see the point of it just seems like an app to take up space on your phone". Tell us what you really think Bekk!
- The log in is ridiculously confusing. It's not really a log in as much as a re-direct to myGov which I couldn't successfully log into.
- It has a function allowing you to record, categorise and photograph receipts. This data is stored on your phone and can be backed up to iCloud. There is no OCR so all data needs to be manually entered, and it does not deal with file types other than photos.
- In terms of using your phone to capture receipts it is arguably easier to use the upload icon when you have the photo or document on screen and choosing the 'save to files' option, then choosing your preferred filing option including, on phone, iCloud, Dropbox, One Drive, Dropbox or whatever else you subscribe to.
- The app icon looks good enough for a half a star – hard markers we are!
- If you are considering using the app read the reviews on App Store to fully understand its limitations and people's frustrations in using it.

In the immortal words of Molly Meldrum "do yourself a favour" and have a good look at Hubdoc.

The ATO App May Be a Lemon So Far but Hubdoc Isn't: Those of you who follow Xero in a corporate sense will see their strategy of expanding their worldwide user base and add-in app community. Recently they have made strategic acquisitions to expand their appeal and offering. These acquisitions include Hubdoc, and more recently Waddle, Tickstar and Planday. The functionality of these applications is in order, document management, invoice finance using Xero data, e-invoicing, and payroll and workforce management. Each of these are a segment of accounting and administrative functions that capitalise on or work in conjunction with accounting data.

Hubdoc now comes free with most Xero plans, and with a touch of creativity you can adapt it to handle your personal and business documentation eliminating the need to retain paper versions. Here are the potential benefits of using this technology:

- Storage of a large amount of transactional data for business, accessible on any device and able to be automatically backed up to the likes of Dropbox and Google Drive.
- OCR Recognition of all scans and automatic filing by supplier and date.
- Push through processing into Xero with automated categorisation within Xero.
- Document input methods including, phone app photos, email to Hubdoc, drag and drop, and for some large suppliers – automatic download.
- Potential to manage documents for multiple family entities on one file using labels. Note only one Xero file can be connected.
- Use for management of payables including home bills with flagging of each bill as to whether processed and paid.

Note there are other products available in this category including Dext (formally called Receiptbank). Dext is likely to be a better solution for invoices with multiple line items that need to each be coded to a different account.

Please contact us if you would like suggestions on how Hubdoc could be used to maximum benefit or whether an alternative may be better suited.

THE LAST WORD ON BUSINESS & FINANCIAL SUCCESS

We have compiled below some compelling words of wisdom written or in common use by leading world experts in dealing with other peoples' money:

The Keys to Business and Financial Success

1. **Focus: "**A focused approach ensures a systematic cadence that adds velocity to benefit realisation" (ANZ Investor Presentation).

2. **Deliver the Deliverables:** Typically, fluid output parameters applied against an astute selection of supple non-core benchmarks will yield observable results and enhance short-term management incentivisation.

3. **All the Way with ESG:** Integration of conscientious top down and bottom-up, robust Environmental, Social, and Governance (ESG) standards will exemplify corporate moral superiority and broaden diversity of organisational stakeholders, incorporating and embracing the entirety of ~~man~~humankind, along with all things living and inanimate. Capitalisation diminution is a collateral by-product of achieving executive moral status fulfilment.

4. **Diversity & Inclusion – The Culture of Success:** Incompatibility and acute culture and value set differences must be embraced to achieve congruence in cultural drivers and a common vision to critical success actualisation.

5. **Sustainability Until the End:** Demonstrable direction of human and capital resources toward socially and environmentally sustainable practices focuses on preservation of lifecycle, comprising harmonious and respectful interaction within the physical universe and global community with procurement assessment on a whole-of-life cycle basis, including exhaustive due diligence on, and economic coercion of suppliers capturing underlying comparative social responsibility signalling, on trend progressive adequacy, and real-time suitability of political affiliations and media portrayal. An unexpurgated sustainability process necessitates subordination of economic viability of the organisation and potential dilution of prospects of continuation as a going concern: Sustainability through unsustainability is the new mantra.

Figure 1 – Authoritative looking chart (share price scale inverted to create false positive impression).

Disclaimers

Financial Product Advice

Nothing in this advice is intended as 'financial product advice' as defined by the Corporations Act (as amended by the Financial Services Reform Act 2001). We are not licensed to provide 'financial product advice' which includes recommendations regarding contribution to or withdrawal from, or specific investments within a particular superannuation fund (including a Self-Managed Superannuation Fund). You should consider if it is in your interests seeking advice from an Australian Financial Services Licensee before making decisions in relation to a financial product.

Currency of Income Tax Advice

Any taxation advice included in this correspondence is current to the date of writing. Taxation laws in Australia are complex and constantly changing. The government often changes rules effective from the date announced and, in some cases, retrospectively. If there is any delay in the use of this advice you should consider having it refreshed.

Quality of information

Before relying on the information on this newsletter, users should carefully evaluate its accuracy, currency, completeness, and relevance for their purposes, and should obtain professional advice relevant to their particular circumstances. We and associated parties cannot guarantee nor assume any legal liability or responsibility for the accuracy, currency or completeness of the information or material.

Links to external websites

This newsletter may contain links to other websites which are external to our newsletter and website. It is the responsibility of the user to make their own decisions about the accuracy, currency, reliability, and correctness of information contained in linked external websites.

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Users of our website should be aware that the World Wide Web is an insecure public network that gives rise to a potential risk that a user's transactions are being viewed, intercepted, or modified by third parties or that files which the user downloads may contain computer viruses or other defects.

We and associated parties accept no liability for any interference with or damage to a user's computer system, software or data occurring in connection with this website. Users are encouraged to take appropriate and adequate precautions to ensure that whatever is selected from this website is free of viruses or other contamination that may interfere with or damage the user's computer system, software, or data.

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