

News

June / July / August 2020

COVID-19 SPECIAL REPORT AND UPDATES

*"Success is not final, failure is not fatal.
It is the courage to continue that counts"*
– Winston Churchill.

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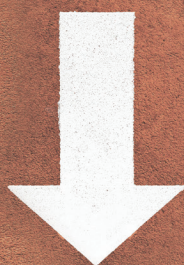
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Look
Back.



Act
Forward.



From the outset, 2020 was always going to be a difficult year. Drought and bushfires carried over from 2019. I wrote the March editorial of our newsletter in February, reflecting on the severity of the then bushfires which had dominated the landscape of Australia for months.

During that period, we saw the strength of human spirit. There were daily instances of people reaching out to one another. Resilience was going to be needed to move forward into 2020.

We live in an unpredictable world. Nothing remains the same for long.

We started March with the bushfires ending, sun, surf, V8 car racing, The Fringe and enthusiasm about the commencement of winter sports. The month finished on a dramatically different note. There are no gatherings. Two is company, three is a crowd and not allowed! We also have a new phrase, "Social Distancing".

COVID-19 arrived having an instant and devastating impact. This has been multi-dimensional – from the personal to the economic. Businesses have reluctantly let employees go. There has been an emotional cost. No one has been immune. The Government's financial

responses have not been about stimulus, but survival. That says it all.

Consequently, the end of the financial year will have a very different aspect to it this year. There is a lot of tension and anxiety in the air. There will be some mixed fortunes for businesses this year.

The year 2020 was always going to represent a defining year. It was clear that there would be commentators making references to having 20/20 vision. There was going to be no room for a short-sighted approach.

Hindsight is, 2020 vision.

You can't always wait for the benefit of hindsight when it comes to tax planning, as the tax break that you get today, might not always be there.

The countdown to the 30th of June has commenced. Businesses are now reviewing their tax outcomes. There is a limit to how much you can do in 30 days. Tax planning is no longer just a 30th of June rush. This newsletter contains some proven tax-effective strategies, and outlines the new plant and equipment instant write-off and depreciation claims.

As always, cash flow is imperative. Expenditure should be a necessity for a business, not simply for the sake of saving tax. It is also important to remember to have a long-term vision.

Andrew Evans

COVID-19 SPECIAL

Australian Taxation Office Assistance During COVID-19

The Australian Taxation Office (ATO) has committed to implement a series of administrative steps to help taxpayers who will go through financial difficulty as a result of the COVID-19 pandemic.

Support measures include:

- Deferring by up to six months, the payment date of amounts due through a BAS (including PAYG Instalments), Income Tax Assessments, Fringe Benefits Tax Assessments and excise;
- Allow businesses on a quarterly reporting cycle to opt into monthly GST reporting in order to get quicker access to GST refunds which they may be entitled to;

- Allowing businesses and individuals to vary Pay As You Go Instalments (PAYG) to NIL for the June 2020 quarter. Businesses that vary their PAYG Instalment to NIL, can also claim a refund for any instalments made for the September, December 2019 and March 2020 quarters;
- Remitting any interest and penalties incurred on or after 23 January 2020 that have been applied to tax liabilities; and
- The ATO will work with affected businesses to help them pay their existing and ongoing tax liabilities, by allowing them to enter into low interest payment plans.

Deferring by up to six months, the payment date of amounts due through a BAS

COVID-19 - Early Release of Superannuation

Recent amendments to the SIS and RSA Regulations have been made to allow individuals affected by the Coronavirus to have up to \$20,000 released from their superannuation or retirement savings account, on compassionate grounds.

Each person is permitted to apply for determinations to have up to two releases – one for an application made during the 2019/20 financial year and another for an application made during the 2020/21 financial year. This means a person may have up to \$20,000 released in total over the two financial years.

Amendments to the legislation have been completed to ensure that any such amounts that are released, are not subject to tax.

Eligibility

The legislation states that to apply for the determination of an early release, the person must satisfy one of the following requirements about their employment or business status. At the time a person applies for the determination, they must be either:

1. Unemployed;
OR
2. Eligible to receive any of the following:\
 - A) A JobSeeker Payment or Youth Allowance for JobSeekers;
 - B) A Parenting Payment (which includes the single and partnered payments);
 - C) A Special benefit under the Social Security Act; OR
 - D) The Farm Household Allowance**OR**
3. On or after 1 January 2020, the person:
 - A) Was made redundant;
 - B) Had their working hours reduced by 20% or more; OR
 - C) Is a sole trader and their business was suspended or there was a reduction in their turnover of 20% or more.

COVID-19 – State Government Emergency Cash Grant



South Australian Small Businesses and Not-For-Profits will be offered a one-off \$10,000 Emergency Cash Grant to further support them through the Coronavirus crisis.

The Grant will assist those who have suffered a significant loss of income or been forced to close, as a result of necessary Coronavirus-related restrictions.

The Cash Grants will be available to help cover businesses' ongoing or outstanding operating costs such as rent, power bills, supplier and raw material costs and other fees.

The Grant applies to those businesses with a payroll of less than \$1.5 million, and are not entitled to a Payroll Tax Waiver under the COVID-19 support measures already introduced, for businesses with payrolls of up to \$4 million.

To be eligible for the one-off \$10,000 Emergency Cash Grant, a business must:

- Employ people in South Australia;
- Have turnover of more than \$75,000;
- Have payroll of less than \$1.5 million and not be entitled to a Payroll Tax Waiver under the COVID-19 support measures introduced by the State Government;
- Have an ABN and were carrying on the operation of a business in South Australia on 1 March 2020;
- Have been subject to closure or highly impacted by COVID-19 related restrictions;
- Use the funds to support activities related to the operation of the business; and
- Apply by 1 June 2020.

Working from Home?

Claiming deductions if working at home through COVID-19



Special arrangements have been announced by the ATO due to COVID-19 to make it easier for people to claim deductions for working from home.

The new arrangement will allow people to claim a rate of 80 cents per hour for all their running expenses, rather than needing to calculate costs for specific running expenses.

Multiple people living in the same house can claim this new rate. For example, a couple living together could each individually claim the 80 cents per hour rate. The requirement to have a dedicated work from home area, has also been removed.

The number of hours worked from home will need to be recorded.

Claims for working from home expenses prior to 1 March 2020, cannot be calculated using the shortcut method. These must use the pre-existing working from home approach and requirements.

The 80 cents per hour covers things such as heating, cooling, lighting, cleaning and the decline in the value of furniture. A separate deduction can be made for phone and internet usage, computer consumables, stationery and computer depreciation.

Set up costs of the home office, such as the purchase of equipment including printers, computers and phones, would be claimed separately to the 80 cents per hour rate.

This new shortcut arrangement does not prohibit people from making a working from home claim under existing arrangements, where you calculate all or part of your running expenses.

The overarching principles for home office deductibility are:

- The expense must have been incurred;
- You must not have had the expenses reimbursed by an employer or anyone else;
- You must have incurred the expense in gaining or producing assessable income; and
- You must have evidence of the expense which usually included substantiation of expenses.

So What Expenses are Deductible when Working from Home?

In working out what is deductible, it is important to distinguish between two different categories of expenses – operating expenses (sometimes referred to as running costs) and occupancy expenses.

Operating Expenses

The work-related portion of the following operating expenses may be claimed:

1. Depreciation of home office furniture, fittings and equipment such as computers, printers and desks;

2. The cost of heating, cooling, lighting and cleaning your home to the extent that the costs exceed the amount normally spent if not working from home;
3. The cost of repairing home office furniture and fittings;
4. Home telephone calls;
5. Internet access charges; and
6. Printer cartridges/inks.

In respect of Item 1 above, if the amount is less than \$300, an immediate deduction for the work-related portion can be claimed. Otherwise, it must be written off over the effective life of the asset.

Mobile phone usage is also subject to some administration shortcuts, with a standard \$50 fixed deduction per year being allowed. Otherwise, an apportioned deduction based on actual expenses is required. This requires a diary to be kept for a representative four-week period.

Occupancy Expenses

Generally, occupancy or ownership expenses cannot be claimed by employees. This includes expenses such as interest in mortgages, rent, council rates, water rates and land tax. All such items relate to costs associated with occupying the premises as a whole – as opposed to running costs associated specifically with working from home.

Tax Planning + Superannuation

Farm Management Deposits

The Farm Management Deposit (FMD) scheme is intended to allow Primary Producers the opportunity to shift “before tax” income to a later year, where losses created by unfavourable climatic or market conditions can be offset.

The scheme works by allowing Primary Producers to claim an income tax deduction for an actual cash deposit into an FMD scheme in the year the deposit is made. As a result, this reduces the Primary Producer's taxable income in the deposit year.

When withdrawn, the amount is then included in the Primary Producer's assessable income for that year and taxed accordingly.

Eligibility

- The owner of an FMD is the person on whose behalf the deposit is made;

- The owner must be a Primary Producer at the time the deposit is made;
- The owner cannot be a joint ownership, a company or a Trust; and
- The Primary Producer must also pass an Income Test. Specifically, they must have taxable non-primary production income, not exceeding \$100,000 during the year a deposit is made.

Deposits

- Deposits must be made with an FMD provider;
- The deposit must be on behalf of one individual;
- Deposits are deductible in the income year in which they are made. The minimum deposit or repayment is \$1,000;
- The maximum deposit you can hold at any one time is a total of \$800,000;
- Interest on deposits is assessable in the income year on which it is paid;
- Generally, the FMD must not be withdrawn within 12 months of making it. There are however special concessions for natural disasters and drought;
- You can hold FMDs with more than one FMD provider;
- The deduction allowable in any income year, is limited to the taxable income

derived from a business of primary production in that year; and

- You cannot claim a deduction:
 - ▷ For any amount that exceeds the maximum deposit cap of \$800,000;
 - ▷ If your taxable non-primary production income is more than \$100,000

Withdrawals

If you withdraw an amount from your FMD, you must include the amount of the deduction you claimed, in your assessable income in the year the deposit is repaid to you.

However, in the event of a natural disaster or severe drought, early access to FMDs can be made while still retaining the tax benefits, under certain conditions.

Ceasing to be a Primary Producer

If you cease to be a Primary Producer during an income year for at least 120 days, then the deposit must be closed and repaid. The deposit is considered to be repaid at the end of the 120-day period, irrespective of when the physical deposit was repaid.

The FMD will be considered to be assessable income in the year in which the primary production activity ceased.

Superannuation Guarantee Amnesty

The SGC Amnesty allows employers to make deductible payments, without penalties, of outstanding Superannuation Guarantee Charge amounts if:

- They relate to the period 1 July 1992 until 31 March 2018; and
- They are paid during the Amnesty period (24 May 2018-7 September 2020)

Interest calculated at a rate of 10% a year on the SG shortfall, will still apply to compensate employees for late payment.

Background

Employers who do not pay the minimum amount of Superannuation Guarantee Contributions in respect of their

employees' ordinary times earnings for each quarter, have a penalty imposed.

If the required minimum payments are not made by 28 days after the quarter to which they relate, a non-deductible SGC comprised of the following amounts, is payable:

- SG shortfall – the total of these amounts in respect of each affected employee;
- Interest on those SG shortfalls – currently 10% p.a. on each individual shortfall from the beginning of the relevant quarter until the date the SG Charge is payable;
- An administration fee – calculated at a rate of \$20 per employee per quarter; and
- Less any amounts eventually paid later.

The Amnesty provides employers with a number of concessions if they pay a qualifying outstanding SGC that:

- Relates to the period 1 July 1992 until 31 March 2018; and
- Is paid during the Amnesty period.

The concessions provided by the Amnesty include:

- The SGC (comprised of the shortfall amounts, interest and the administration fee) will be deductible to the employer. Normally, payment of the SGC is non-deductible;
- The administration fee (one of the three components of the SGC outlined above) will be waived. Normally, this is calculated at a rate of \$20 per employee, per quarter; and
- No penalties will be applied for failing to lodge an SG Statement. In the usual circumstances, this can be up to 200% of the SGC amount.



Tax Planning Strategies Before 30 June

Pre-Pay Expenses

There are many ways in which entities can defer income, maximise deductions, and take advantage of other tax-planning initiatives to manage their taxable incomes.

The strategies generally revolve around deferring income and bringing-forward expenses.

Trying to bring forward any deductions into the 2019/20 financial year, will increase expenses and in doing so, reduce taxable income.

If you know that next financial year, you will be earning less, deductible expenses can be brought-forward into the present financial year. This will provide more financial benefit now, rather than if they are left to fall into next financial year.

An exception to this is where you expect to earn more next financial year. In this case, it may be to your advantage to delay any tax-deductible payments until next financial year, when the financial benefit of the deductions could be greater!

Delay Income

Livestock sales or grain/seed sales could be delayed until post 30 June. This would defer the income tax consequences until the 2020/21 financial year.

Consideration needs to be given to the cash flow implications from this deferral.

Other Tax-Planning Strategies

- Writing off bad debts, obsolete stock and plant before 30 June 2020. To write-off a debt as bad, it must generally have been brought to account as assessable income and you must have given up all hope, and more importantly, all action for recovery. Bad debts cannot be claimed by taxpayers who recognise income on a cash basis.
- Consider tax-deductible superannuation contributions. Further detail about contribution limits can be found in superannuation articles in this newsletter;
- Salary sacrificing any year-end bonus into superannuation. Consideration also needs to be given to superannuation contribution limits if adopting this strategy;
- Review your motor vehicle use and where appropriate, complete a new logbook. Motor vehicle claims are most accurately calculated using a logbook to determine business use. If you have not maintained a logbook, it is possible to use the cents per kilometre method. However, claims are limited to 5,000 kms of business travel;
- Consider infrastructure plans and bring-forward asset purchases;
- Water or fodder asset purchases by Primary Producers can reduce taxable income. Careful consideration needs to be given to when the asset is ready for use. This is when the deduction applies, not when it is invoiced;

- Review your cash flow needs. Expenditure on expenses which have been brought forward, Farm Management Deposits and Superannuation need to be considered, in relation to cash flow requirements. “Will you have the cash flow to pay for them now or what will the bring-forward do to cash flow later?”;
- Employers must ensure they have made sufficient superannuation contributions (currently 9.5%) for all of their employees, on a quarterly basis throughout the financial year, to avoid risk of incurring a penalty under the Superannuation Guarantee Charge (SGC) Regime; and
- Further, all superannuation contributions for the June quarter must be paid by 30 June 2020 to be tax deductible. Book entries alone are not enough. Even if you miss the 30 June deadline for deductibility, you must make the payment by 28 July to avoid SGC penalties.

One strategy is to consider tax-deductible superannuation contributions.

Superannuation

What are the Limits of Superannuation Contributions in the 2019/20 Year?

Contributions Which Qualify for a Tax Deduction – Concessional Contributions

Concessional contributions (which include personal deductible contributions, employer contributions and salary sacrifice contributions) are limited to a total, from all sources, of \$25,000 per annum.

It is important to note that in order to claim a personal income tax deduction, you must lodge a valid Notice of Intent to Claim a Deduction form, with your superannuation fund, within the required timeframe.

Ensure contributions are made before 30 June. When a contribution is made can be an important factor for many superannuation rules, such as:

- The superannuation contribution is deductible in the financial year it is made;
- Whether a fund is able to accept a contribution (eg. A member's age and any related work-related test requirement) is assessed at the time the contribution is made; and
- The superannuation contribution counts towards a member's relevant contributions cap in the financial year that it is allocated to the member's account;
- Leaving making a contribution to the last minute could result in it being received post 30 June. Therefore, no income tax deduction could be claimed.

Employees can now choose to either contribute to superannuation via pre-tax salary sacrifice which reduces their taxable

income or elect to claim a tax deduction for post-tax contributions.

If you are aged 65-75, you must pass a Work Test to be eligible to contribute to superannuation.

Contributions Which Do Not Qualify for a Tax Deduction – Non-Concessional Contributions

People aged more than 75 are not eligible to make personal contributions. The only exception to this rule is if you are eligible to make downsizer contributions. There is no Work Test requirement, nor age restriction for the downsizer contributions.

Non-Concessional Contributions are those contributions to superannuation for which you are not going to claim a tax deduction.

Those people with more than \$1.6 million in superannuation (measured on 30 June immediately before the financial year of the contribution) are not allowed to make any more Non-Concessional Contributions.

For people with less than \$1.6 million in superannuation, a contribution of up to \$100,000 per annum could be made.

If you are under age 65 and have less than \$1.4 million in superannuation, you could bring-forward up to two years of Non-Concessional Contributions, meaning you could contribute \$300,000 this financial year, as long as you have not triggered the "bring-forward" provision in the previous two financial years.

If you have between \$1.4 and \$1.5 million in superannuation, you can bring-forward one year of Non-Concessional Contributions, but if you have between \$1.5 and \$1.6 million, you cannot bring-forward any further contributions.

Year-End Superannuation Strategies

- The Low-Income Supernational Tax Offset (LISTO)

The Government currently provides a contribution of up to \$500, which is equal to 15% of Concessional Contributions made, up to \$3,333 for workers with an adjusted taxable income of up to \$37,000 p.a. where at least 10% of total income is from business or employment.

- Government Co-Contribution

If you are working, have less than \$1.6 million in superannuation, are making a Non-Concessional Contribution to superannuation (without exceeding your Non-Concessional cap for the year) and have total income up to \$52,697 this year, you may be eligible for a superannuation Co-Contribution from the Government of up to \$500.

- Spouse Contributions

If your partner's relevant income is \$37,000 or less and they have less than \$1.6 million in superannuation, you could qualify for a tax offset of up to \$540 on the first \$3,000 you contribute to superannuation for them from your after-tax income.

Some great
ideas to help
your Super
grow



The tax offset decreases as your partner's income increases above this level. It phases out when their income reaches \$40,000.

• *Additional Tax on Concessional Contribution for High Income Earners*

If your income plus Concessional Contributions (within cap limits) exceeds \$250,000 p.a. an additional 15% Contributions tax will be levied on Contributions that are above the \$250,000 threshold.

• *Superannuation in Pension Phase*

Unless a pension commences on or after 1 June 2020 (where no payment is required to be made in the current financial year), the required minimum pension drawdown rates for both the 2020 and 2021 financial years are summarised in the table below. It summarises both the normal and temporary percentage drawdown factors

Minimum Pension Payment Rates

Age of Member	Temporary Percentage Factor (2019/20 and 2020/21)	Normal Percentage Factor
65-74	2.5%	5.0%
75-79	3.0%	6.0%
80-84	3.5%	7.0%
85-89	4.5%	9.0%
90-94	5.5%	11.0%
95 or older	7.0%	14.0%

• *Recent Retirees – Additional Contributions*

Recent retirees may make extra superannuation contributions using Work Test exemptions.

From 1 July 2019, recent retirees aged 65-74 with a Total Superannuation Balance (TSB) below \$300,000 at the previous 30 June, will be eligible to make voluntary superannuation contributions for an extra financial year, where they have met the Work Test in the previous year.

The Work Test exemption is a once in a lifetime exemption and can only be used in one financial year.

• *Superannuation “Catchup” Contributions*

Under these rules, any unused amount under the Concessional Contributions cap can be utilised in a later financial year on a five-year rolling basis.

The current pre-tax superannuation Concessional Contribution Cap is \$25,000 per year and includes mandatory employer SG payments and salary sacrifice amounts.

Amounts carried forward that have not been used after five years, expire.

The main eligibility criteria is, that a person's Total Super Balance must be less than \$500,000 at the start of the financial year.

In theory, a person can now have no pre-tax superannuation contributions for five financial years and then make \$150,000 pre-tax superannuation contribution in the sixth financial year. The “catchup” rules are also available for people aged between 65-74 who meet the Work Test.



Accelerated Depreciation

Does
this apply
to you?



Measures introduced in March 2020, provide an incentive to businesses with an aggregated turnover of less than \$500 million for the 2019/20 and 2020/21 income years, to deduct the cost of depreciating assets at an accelerated rate.

For each new asset, the accelerated depreciation deduction applies in the income year that the asset is first used or installed ready for use, for a taxable purpose. The usual depreciating asset arrangements apply in the subsequent income years that the asset is held.

Eligibility

To be eligible to apply for the accelerated rate of deduction, the depreciation asset must:

- Be new and not previously held by another entity;
- Not be an asset to which an entity has applied depreciation deductions or the instant asset write-off rules;
- Be first held on or after 21 March 2020; and
- First used or first installed ready for use for a taxable purpose on or after 12 March 2020, until 30 June 2021.

Under the measures, different rules apply depending on whether or not, an entity has used the simplified rules for capital allowances for small businesses.

Small Business Entity

If you are a small business with an aggregated turnover of less than \$10 million and you use the simplified depreciation rules, those assets over the instant asset threshold, which are eligible for the accelerated depreciation, are added to the general small business pool.

The amount which can be deducted in the income year the asset is first used or installed ready for use is:

- 50% of the cost of the depreciating asset **plus** the amount of the usual depreciation deduction that would otherwise apply but calculated as if the cost of the asset were reduced by 50%

For small business, this will equate to a deduction equal to 57.5% (rather than 15%) of the business portion of the new depreciating asset in the year you add it to the pool.

In later years, the asset will be depreciated as part of the small business pool rules.

IN BRIEF

Instant Asset Write-Off Threshold Increase

The Instant Asset Write-Off Threshold has increased from \$30,000 to \$150,000 for items purchased during the period from 12 March 2020 - 30 June 2020.

Assets purchased from now until 30 June 2020, that would have previously depreciated over their effective life, or in a small business pool, can now be written-off immediately.

Commencement of New Land Tax Provisions

New Land Tax provisions are due to come into effect on 1 July 2020. While many taxpayers have called for the commencement of these provisions to be delayed, the Government is proceeding with a commencement date of the above.

There has however, been an increase in the transitional relief fund for eligible taxpayers whose Land Tax bill will increase as a result of the changes, with the relief for eligible taxpayers increasing from 50% to 100% of the eligible amounts.

To be eligible for a relief, the increase in Land Tax assessable under the new rules in respect of relevant properties, must be at least \$2,500 more than it would have been under the existing rules. Relief is only provided to the extent that the Land Tax increase is over \$2,500 (ie. relief is not provided for the first \$2,500 of any increase of up to a maximum of \$50,000).

Under the recent announcement, 100% of the eligible increase in Land Tax over and above the first \$2,500 would now be eligible for a relief.

Any taxpayer with an annual increase in their Land Tax assessment above \$102,500 will not be eligible for any relief. The relief also does not apply to any increase in Land Tax assessed to Trustees, as a result of the higher Trust rates being imposed.