RJC EVANS & Co

News

RJC EVANS & Co
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Let us give the gift of ourselves

I am writing this piece for our newsletter on the 15th of November 2020, reflecting on the horrific year that our world continues to endure.

In Australia, our country has fared much better than most and we have become the envy of the world in our ability to fight, and learn a new way of living with this insidious infection that is COVID-19.

Fair and good governance, rapid responses and financial assistance by many in need have helped our country survive this very challenging year.

Lockdowns have kept Australians relatively safe, but sadly, job losses have been the personal price paid for many. Families have been separated by hard borders, especially difficult at times of grave illness, bereavement and significant celebrations. Families have also been trying to cope with working from home, schooling from home, and caring for those in the aged care and disability sector.

Small businesses have been especially impacted by changing and difficult circumstances, in addition to the issues involved in keeping employees, clients and customers safe. Border communities have been challenged by rigorous restrictions applied to their daily lives.

However, today I feel there is renewed hope and optimism in this wonderful country of ours, in this island sanctuary we are so fortunate to call "home."

There is the news this week from our hard-working scientists that great strides have been made towards the goal of creating COVID-19 vaccines. There is also the hope that most Australian states will be open to each other in early December, just in time for the season of Christmas, if infection case numbers continue to remain low.

The very best of human nature has been especially evident this year, as people have found all manner of ways to stay connected and to check in on the well-being of others.

In the spirit of Christmas, let us continue to reach out to our neighbours, family and friends. Let us give the gift of ourselves, wrapped in kindness, generosity, gratitude and love. Give up your time and your hearts to others.

"Do not neglect the gift that is in you", (1 Timothy 4:14) is as relevant for us today, as it has ever been.

All of us at RJC Evans & Co wish you a truly special Christmas this year, hopefully reunited with family and friends you may not have seen for most of this year.

We wish all our readers good health and renewed hope for a very much better year to come in 2021, for our families, our communities, our country and our world

Andrew Evans

General

Christmas Break Office Hours

The office will be closed for the Christmas period from 12.30pm on Wednesday, 23 December 2020.

The office will then reopen with full staff on Monday, 4 January 2021.

Personal Income Tax Rates

Individual income tax brackets changed on 1 July 2020. A chart summarising the changes is detailed below.

In short, the following has occurred:

- The 19% tax bracket has been extended from $37,000 to $45,000.
- The 32.5% marginal income tax rate has been pushed out to $120,000.

Taxable Income Range ($)	
Marginal Income Tax Rate	2020/21
0	0-18,200
19	18,201-45,000
32.5	45,001-120,000
37	120,001-180,000
45	>180,001

JobTrainer Fund

If at the end of 2020 you are leaving school or looking for work, JobTrainer is your opportunity to study free or obtain low-fee courses. You can study for an accredited diploma, certificate or short course.

Under the JobTrainer package the Supporting Apprentices and Trainers wage subsidy is also available to small and medium-sized business employers to retain apprentices and trainees in work.

Eligibility for this wage subsidy has been expanded to include medium-size business with up to 199 employees who had an apprentice in place on the 1 July 2020.

The Government is supporting small business to retain their apprentices and trainees. Eligible employers can apply for a wage subsidy of 50% of the apprentices or trainees' wages paid until the 31 March 2021.

In addition to the existing support for small business, medium-sized business will now be eligible for the subsidy for wages paid from 1 July 2020–31 March 2021.

Subsidies will also be available to any new employer who re-engages an eligible apprentice that was displaced by an eligible small or medium-sized business.

100% Write Off for Existing Small Business Equipment

The business must have an annual turnover of less than $50 million

Many small and medium business owners (with an aggregated turnover of less than $50 million) would be aware of the 2020 Federal Budget measure to allow their business to immediately claim a tax deduction on the full cost of equipment purchased and installed between 6 October 2020 and 30 June 2022, no matter the cost.

Interestingly, the same concession also applies to **existing** equipment, where the simplified depreciation system has been applied. In fact it is compulsory for existing pool balances.

To be eligible to claim the remaining book value of equipment (new and existing) as a tax deduction in 2020/21, the following criteria must be met;

- the business must have an annual turnover of less than $50 million; AND
- the equipment must be depreciated via the Small Business Pool (referred to as the "General STS Pool" on RJC Evans & Co Depreciation Schedules)

This will result in significant tax savings for small businesses in 2020/21. For capital intensive small businesses (such as primary producers), the saving may carry forward to future years.

However, as the below illustration shows, subsequent years may have larger tax bills as a result of this "bring forward" measure. Cashflow planning in these years will be important should the associated equipment be under finance.

NEW RULES	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	TOTAL
Cash Profit	500,000	500,000	500,000	500,000	500,000	500,000	**3,000,000**
Depreciation	(1,400,000)	0	0	0	0	0	**(1,400,000)**
Carry Fwd Tax Loss	0	(900,000)	(400,000)	0	0	0	**(1,300,000)**
Taxable Profit/(Loss)	(900,000)	(400,000)	100,000	500,000	500,000	500,000	**300,000**
Post 2020 Budget Tax (@marginal rates)	**0**	**0**	**22,967**	**195,667**	**195,667**	**195,667**	**609, 968**
OLD RULES							
Cash Profit	500,000	500,000	500,000	500,000	500,000	500,000	**3,000,000**
Depreciation	(420,000)	(294,000)	(205,800)	(144,060)	(100,842)	(70,589)	**(1,235,291)**
Taxable Profit/(Loss)	80,000	206,000	294,200	355,940	399,158	429,411	**1,764,709**
Pre 2020 Budget Tax (@marginal rates)	**16,467**	**63,367**	**103,057**	**130,840**	**150,288**	**163,902**	**627,921**
Tax Saving/(cost)	**16,467**	**63,367**	**80,090**	**(64,827)**	**(45,379)**	**(31,765)**	**17, 953**

Notes/Assumptions:

- Sole Trader business
- Equipment cost $2m, and an opening pool value of $1.4m.
- Annual cash profit of $500k.
- Ignores any additional equipment purchases/sales.
- Current 2020/21 marginal tax rates used in both scenarios.
- Tax results will differ depending on small business structure (ie. sole trader, partnership, trust, company).

Investing in a low inflation environment

Investors have been experiencing a low inflation investment environment. A few simple rules should help you manage the impact of low inflation on your portfolio.

Low inflation has its benefits for shoppers allowing them to buy goods and services at lower prices. However, it may not be good news for all investors, particularly those relying on cash and fixed interest investments to provide them with a reasonable income return.

The impact of low inflation on your portfolio will depend on the type of investments you hold. Some investments may benefit from low and falling inflation while investments in fixed interest (bonds) and cash tend to be hardest hit because they provide lower income returns when inflation is low.

Generally, weak economic activity tends to result in low inflation as the demand for goods and services falls. As a result, interest rates which are linked to the level of inflation also fall. The Reserve bank of Australia has been cutting official interest rates to historically low levels in reaction to subdued inflation. This has seen returns from cash investments decline.

As a result, interest rates which are linked to the level of inflation also fall when inflation is subdued. The Reserve bank of Australia has been cutting official interest rates to historically low levels in reaction to subdued inflation. This has seen returns from cash investments decline.

Nonetheless, investment strategies can be fine-tuned to maximise returns in periods when inflation is low and financial markets appear to be struggling. Common mistakes can also be avoided.

The following tips are often applied by successful investors when low inflation causes returns to wane:

Adjust your income return expectations: Low inflation globally and in Australia means that retirees relying on cash and term deposits to generate income have seen their returns fall. You may need to accept lower rates in maturing term deposits or alternatively consider other investments which are likely to involve higher levels of risk. It is important that you assess the trade-off between how much risk you are willing to accept and the likelihood that your portfolio will grow to satisfy your objectives. Keep in mind your risk profile when assessing the acceptable level of risk.

You may also need to contribute more to your savings (which impacts your spending ability).

Be wary of overpaying for yield: The search for yield has seen higher yielding securities increase in price which makes them less compelling investments from a valuation perspective. Be cautious to not overpay for securities in the chase for competitive yields.

Take advantage of low borrowing costs: Low interest rates may be welcome news for those with debt especially a mortgage. Consider consolidating your debt into a single loan to take advantage of lower interest rates. Also reconsider your personal budget to determine your ability to make higher payments to potentially reduce the life of your loan.

Don't panic: When world equity markets struggle, investors are often tempted to sell down their share investments. Don't panic and instead keep in mind your long term strategy objectives.

Now is the time to take a close look at your portfolio - particularly speculative investments - but it is not a time to abandon markets altogether.

Reconsider your asset allocation. Global stock markets often go through periods of volatility but over the long-term it tends to favour equities over other more defensive asset classes.

However, it is worth considering the merits of assets classes like, infrastructure, private equity and even hedge funds.

Of course, your exposure to different asset classes depends on your age, tolerance for risk and savings objectives.

Don't be disappointed. In an environment where inflation is between 2 and 2.5 per cent, real returns of around 5 per cent are a worthwhile investment.

If you are interested to invest, or would like to review your existing investment portfolio or super, please contact our financial planner, **Gerrit Lombard on 08 8272 2500.**

Do you need assistance with maintaining your cost base records?

If you have not engaged a full-service financial planner or stockbroker, your cost base records may be nonexistent or out of date.

In order to fund an independent retirement, many of our clients have purchased investments.

It is imperative to retain accurate capital gains tax cost base records for these investments. While this may be very straightforward for an investment property, listed securities can be a much more complex task.

If you have not engaged a full-service financial planner or stockbroker, your cost base records may be nonexistent or out of date. Alternatively, if you or a loved one manually maintain cost base records, there is a risk these records are inaccurate, not up to date, may be lost or accidentally destroyed.

We have been engaged to undertake a reconstruction of the cost base records for many clients, including deceased estates. R J C Evans & Co Pty Ltd utilises comprehensive software which assists many key areas, including:

Cost base reconstruction and ongoing maintenance:
The software tracks the cost base records of each individual parcel for both ASX listed securities and listed managed funds from the date of purchased to the date of sale. The software also accurately tracks dividend reinvestment, consolidations, mergers/splits, capital returns and name changes.

Pre-CGT investments:
Investments purchased on or before 19th September 1985 are exempt from capital gains tax. In addition, any bonus securities which result from a pre-CGT investment are also pre-CGT investments. The CGT/pre-CGT status of all applicable investments is automatically maintained within the database.

Investments eligible for indexation:
Indexation applied to investments purchased between 20th September 1985 and 20th September 1999. The concept was to only levy tax on a gain which exceeded inflation. The indexed cost base is automatically calculated from the date of purchase through to 20th September 1999.

Investments eligible for CGT discount:
Automatic tracking eliminates the guesswork from calculating which parcels of shares are eligible for the CGT discount.

CGT minimisation:
We can produce a report which details the largest capital loss, through to the largest capital gain at individual share parcel level. In addition, we can easily determine the capital gains and losses in a particular financial year; including capital gains tax distributions from listed managed funds, application of losses and overall CGT.

Cost base split of investment records for estate beneficiaries:
Once cost base records are in place, we can produce separate cost base records for each eligible beneficiary. As part of this process, the cost base of any pre-CGT investments will be reset to the market value at the date of death.

What to do for peace of mind:
Feel free to contact your advisor in our office if you would like to obtain a quote for reconstruction of historical cost base records and/or ongoing maintenance of your cost base records.

General

Concessions Available from ConcessionsSA

Do you have a concession eligibility

ConcessionsSA provides a range of concessions to help South Australians on low or fixed incomes with the cost of household expenses and/or travel on public transport.

Check which concessions you may be entitled to on the chart below:

Concessions eligibility Chart	Cost of Living	Sewer	Water	Energy	ESL
Pensioner Concession Card	✓	✓	✓	✓	✓
DVA Gold Health Card (TPI, EDA, War Widow or MRCA)	✓	✓	✓	✓	✓
British & NZ war Widow	✓	✓	✓	✓	✓
Centrelink Beneficiary	✓	✓	✓	✓	✓
Ausstudy, ABSTUDY	✓	✓	✓	✓	✓
Low Income	✓	✓	✓	✓	✓
Commonwealth Seniors Health Card	✓			✓	✓
Centrelink Low Income Health Care Card	✓	✓	✓	✓	✓

ConcessionsSA can be contacted at www.sa.gov.au/concessions

Coronavirus SME Guarantee Scheme

The Coronavirus SME Guarantee Scheme will provide a guarantee of 50% to small and medium enterprise lenders for new unsecured loans to be used for working capital.

The aim of this is to enhance lender's willingness and ability to provide credit which will result in SMEs being able to access additional funding to help support them through the upcoming months.

SMEs with a turnover up to $50 million will be eligible to receive these loans.

Eligible lenders are offering guaranteed loans on the following terms:

- Maximum total size of the loans will be $1 million per borrower
- The loans will be up to 5 years, with an initial 6 month repayment holiday, at the discretion of the lender.
- The loans will be in the form of unsecured finance, meaning the borrowers will not have to provide an asset as security for the loan.
- Loans will continue to be subject to lender's credit assessment processes with the expectation that lenders will look through the cycle to sensibly take into account the uncertainty of the current economic conditions. The decision on whether to extend credit and management of the loan will remain with the lender.

This second phase of the Scheme started on 1 October 2020 and will be available for loans made until 30 June 2021.

If you are interested in the Coronavirus SME Guarantee Scheme, you should approach your financial institution for more information.

Full Expensing of Assets–FAQ's

Does full expensing apply to second hand assets?
Assuming the asset is first held after budget time (6 October 2020) full expensing does apply to second hand assets. This assumes that the entity has an aggregated turnover of less than $50 million.

A motor vehicle is purchased by a small business entity for $100,000 and therefore costs more than the car limit ($59,136). It is estimated that the business use of the car will be 80%. What are the full expensing implications?

The "cost" of the car will be limited to $59,136. The taxable purpose portion of the adjustable value is deducted.

In this case, this would be 80% of $59,136 = $47,308.80. The remaining proportion of the cost ($52,691.20) is not dealt with under the tax legislation. If you have depreciating assets using tax depreciation, this amount would remain on the balance sheet until the car was eventually disposed.

If a motor vehicle costs $100,000 and therefore only $51,136 is claimed as a tax deduction under the full expensing rules, when the vehicle is sold, what happens to the $40,864 that is not being deducted?

Effectively, the $40,864 is not dealt with under the tax system. The car is deemed to cost $59,136 and when it is sold the sale proceeds are adjusted downwards to cater for this.

When a car is sold to which the car limit applies, a calculation is completed to reduce the "termination value" of the car.

For example, assume that the above mentioned vehicle was sold for $50,000 (GST exclusive) the termination value of the car (the sale proceeds) is adjusted to $29,568. This is $50,000 x ($59,136/$100,000).

If small business depreciation is being used, the cost of the vehicle was added to the general small business pool, $29,568 would be subtracted from the pool. If this meant the pool had a negative balance, the negative balance would be returned as assessable income, then the pool balance would be set to zero.

When an item of plant is purchased using a Chattel mortgage, does the cost of the item become available for deduction when the finance contract is settled and the item of plant is delivered?

A chattel mortgage gives the owner of the asset legal ownership from the start of the ownership contract.
In terms of the tax legislation, an asset is held by the owner, or the legal owner, if there is both a legal and equitable owner. For the full expensing law to apply to an asset, it must be first held after budget time (6 October 2020). Therefore, the deduction is available when the taxpayer becomes the legal owner of the asset and the asset starts to be used, or is installed ready for use.

When the plant is delivered, it will usually be the case that the taxpayer is the owner/holder of the asset.

However, until it is installed ready for use no deduction can be claimed.

Are solar panels for a commercial building that is rented to tenants able to be fully expensed?

Solar Photovoltaic Electricity Generation System assets are given an effective life of 20 years by the Australian Taxation Office. Accordingly, such assets are considered to be eligible depreciating assets for the purposes of the full expensing legislation.

The key issue is whether a business is being conducted by the entity that owns the business. Only businesses are able to claim full expensing of depreciation. This would depend on the facts.

Get Ready to Give More Employees Superannuation Choice

The change to the law means that employers may need to offer employees more choice in relation to the superannuation fund into which they pay their compulsory superannuation contributions.

All workplace determinations and enterprise agreements made on or after 1 January 2021 must give employees the right to choose their superannuation fund.

Once the new determination or agreement is in place, an employer will need to give a Superannuation (Super) Standard Choice Form to:

- Existing employees who request to choose their superannuation fund.
- All new employees.

Employers must then pay employee's compulsory superannuation to their nominated fund.

If an employee doesn't nominate a fund, an employer can continue to pay their superannuation into the same fund to which it was previously contributed, or into their default fund.

All employees can nominate their chosen fund by completing the standard choice form through ATO online services linked to their MyGov account.

All workplace determinations and enterprise agreements made on or after 1 January 2021 must give employees the right to choose their superannuation fund.

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Will Fringe Benefits Tax Apply to Your Office Christmas Party?

With 2020 drawing to a close, thoughts turn to the end of year Christmas Party.

While this is a fantastic opportunity for employers to celebrate the end of year with team members, employers should be aware of the tax consequences of hosting Christmas Parties for their staff. This is a complex area which often causes confusion.

The Fringe Benefits Tax (FBT), Goods and Services Tax (GST) and the income tax consequences have been summarised in the schedule below. Please do not hesitate to contact our office for any further clarification.

Event	FBT?	Deduction	Claim GST?
Gift for Employee <$300	No	Yes	Yes
Gift for Employee >$300	Yes	Yes	Yes
Party on Premises - Employee	No - regardless of cost	No	No
Party on Premises – Spouse	Only if benefit exceeds $300	Only if benefit exceeds $300	Only if benefit exceeds $300
Party off Premises – Employee	Only if benefit exceeds $300	Only if benefit exceeds $300	Only if benefit exceeds $300
Party off Premises - Spouse	Only if benefit exceeds $300	Only if benefit exceeds $300	Only if benefit exceeds $300

As can be seen from the chart above, if you want to keep it simple, have the Christmas party in the office, staff only. Costs including serving food and drink, at a Christmas party in the office are exempt from FBT. It must also happen on a work day. The FBT exemption applies, regardless of the costs.

If you invite an employee's partner or other family along, FBT is payable on their costs, unless the minor benefits FBT exemption applies. Minor benefits are free from FBT if they have a value of less than $300 per person and meet certain other conditions.

What About Gifts? - The hamper, bottles of wine or the gift voucher

These will be free from FBT if the value is less than $300.

If an employer gives a present at the staff Christmas party, both the meal and the gift will be free from FBT as minor benefits, even if together they cost more than $300. If the value of each is less than $300, and the other relevant conditions are met.

Is Any of this Tax Deductible?

The general rule is the employer can get a tax deduction for providing a Christmas party, to the extent that it is subject to FBT. Costs that are not subject to FBT are not tax deductible. That includes the costs for which the employer can get a minor benefit exemption.

The exception to this rule is the provision of a gift to an employee, of less than $300 (GST inclusive) and provided infrequently. This is an exempt minor tax-deductible benefit.

IN BRIEF

NewAccess for Small Business

The Australian Government is providing funding to expand Beyond Blue's NewAccess program to deliver tailored, free, mental health support to small business owners.

NewAccess is a free and confidential mental health coaching program for anyone feeling stressed or overwhelmed about everyday life issues such as; work, study, relationships, health or loneliness.

Please note:

- NewAccess is free!
- There are no out of pocked costs.
- It is completely confidential.
- You will not need to visit a Doctor to get help from NewAccess – just enquire directly.
- It is available via phone or video call.

Further details can be found at www.beyondblue.org.au/get-support/newaccess

Changes to General Redundancy Payments

General redundancy and early retirement scheme payments are tax free up to a limit based on the employee's years of service. The rules around these payments have changed. The age at which employees' can access concessional tax treatment for general redundancy and early retirement scheme payments has been extended from the age-based limit of 65 years to pension age. Currently 66 years old.

This change applies to employees who are dismissed or retire on or after 1 July 2019.

If you paid an employee an ETP before 29 October 2019 and they met all the requirements for general redundancy except for the age limit, they may have had more tax withheld than would be required under the new law.

Contact our office should you require further clarity.

Designed by Luke Evans
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