

July, 2020

## **2020 Individuals Income Tax Information Report**

Welcome to the 2019/2020 Income Tax Season.

As in previous years, all personal tax returns prepared by a registered tax agent must be lodged with the ATO before 28 February the next year. Self-lodgers must lodge their returns by 31 October 2020.

### Your Bank account details

Your BSB & Account number details for all Individual, Business and SMSF returns are required by the ATO.

Tax returns cannot be processed without these details. Credit card details and bank customer numbers are not acceptable.

The ATO will only use these bank account details to credit refunds only. The ATO has no authority to debit your nominated bank account to pay your income tax bill. If you owe the ATO any additional tax, then you will make the payment yourself upon receipt of your tax assessment.

Additional details -The ATO requires the following information (where applicable) e.g.:

- Current email address
- Current mobile phone number
- Spouse details (full name, date of birth and taxable income,)
- Number of dependent children.
- Private Health Fund / Hospital Fund information.

### Single Touch payroll / Payroll Summaries

Many employees will no longer receive "Income Statements" (previously called Payment Summaries or Group Certificates) from their employer evidencing their gross earnings, PAYG tax withheld, salary sacrifice superannuation, allowances received or deductions for the year.

Instead, the details are available to you from your "MyGov" account OR the information can be sourced by me from the ATO Tax Agent website when I complete your tax return.

There will still be some employees who will receive annual payment summaries for this year as the rules do not yet apply to all employers.

This has been the case for recipients of Centrelink, the Age Pension, a Disability Pension and Newstart allowance for a number of years.

### Medicare Levy and Thresholds (2019/2020 year).

The Medicare levy remains at 2% of taxable income.

The Levy starts to be charged when respective incomes are;

Singles Income \$22,801	Couples Income \$38,474
Single SAPTO Income \$36,056	Couple SAPTO Income \$50,191

(SAPTO: Seniors and Pensioners Tax Offset)

Income levels for families increase by minimum \$3,471 for each child.

The SAPTO pension age test varies from date of birth pre 1/7/1952 to 31/12/1956.

### Medicare Levy Surcharge (MLS)

The MLS applies to those taxpayers who do not have any private patient hospital cover and whose incomes are above specified levels. The MLS rate varies from 1.00% to 1.25% to 1.50% of the taxpayer's taxable income, depending upon the single or family taxable income level.

### Income Earned by Minors

Children/minors can earn \$416.00pa in bank interest and investment income (i.e. non-exertion income) before they are taxed. Income earned above \$416.00 is taxed at a rate of 66%.

### Low Income Tax Offset (LITO)

The LITO remains at \$445.00.pa. It is a level rebate until taxable income reaches \$37,000.00pa, then reduces until the rebate cuts out at \$66,667.00pa.

### Low and Middle Income Tax Offset (LMITO)

It is in addition to the LITO above. The offset varies from a base of \$255.00 pa to a maximum of \$1080.00 pa. Once taxable income reaches \$126,000.00 pa the offset reduces to NIL.

### Medical Expenses – Net Medical Expenses Tax Offset (NMETO)

This rebate has been discontinued. It is no longer available.

### Centrelink Payment Summaries

As has applied in previous years those clients who receive some sort of Centrelink income (i.e. Age Pension, Newstart, Disability Pension etc) do not need to obtain a payment summary from Centrelink.

We, as tax agents, can access this information for you

If you wish to source this data, go to your “MyGov” account.

### HELP, VSL, SFSS, SSL, ABSTUDY SSL & TSL Financial Statements

The ATO does not provide taxpayers with annual debt statements. We are able to access the information regarding your current debt.

These taxpayers whose taxable incomes are greater than \$45,881.00pa will commence repayment of these debts.

### Zone Tax Offset

Zone Allowance is no longer applicable to those taxpayers who work on a Fly In – Fly Out (FIFO) basis or Drive In – Drive Out (DIDO) basis.

Eligibility for the zone allowance is applicable where the taxpayer has been a resident in the zone for more than 182 days and the taxpayer’s usual place of residence is within that zone.

### Private Health Insurance Rebate

We, as your tax agent, are able to access these details from the Tax Agent Portal at the ATO.

If you require a copy for your records, please contact your health fund.

### Fringe Benefits Tax FBT Changes and Tax Offsets

Fringe Benefits are recorded on your income statements.

## **Capital Gains Tax (CGT)**

For those taxpayers who have disposed of investments (managed funds, Australian Shares, holiday properties, rental properties etc), there will be Capital Gains Tax calculations involved.

In order to calculate your profit or loss on the sale of the investments, taxpayers must supply the following:

- Details and documents pertaining to the purchase
- Details and documents pertaining to the sale
- Details of funds spent during the ownership
- Details of shares acquired via dividend reinvestment plans.

### Record Keeping for CGT Purposes

Taxpayers must retain the full asset/investment purchase details (ie rental property, purchase contract and settlement statement, shares, contract notes) records of further monies spent on the investment and full details of the sale of the investment.

This information is vital to calculate any Capital Gain earned and Capital Gains tax payable.

These records are not retained by the real estate agent, the share broker or the managed fund manager. It is the sole responsibility of the investor to retain and maintain these records.

The retrieval of any missing records is time consuming and expensive to the taxpayer.

## **SUPERANNUATION**

If you have turned 75 years during the 2019/2020 financial year, you are only able to claim a tax deduction for contributions you made until 1 month after you turned 75.

### **IMPORTANT**

Individuals wishing to claim a tax deduction for personal super contributions, must lodge a "Notice of Intention to Claim a Tax Deduction" to their superannuation fund and produce the super fund acknowledgement to us to claim a tax deduction.

This change now means that taxpayers do not have to salary sacrifice superannuation contributions to obtain a tax deduction. They can contribute moneys themselves direct to their super fund and receive the same income tax deduction result.

### **Concessional Contributions**

The concessional contributions for individuals contributing to a 'taxed' fund are limited to \$25,000.00.

Please note, this limit applies to total contributions – 9.5% employer Superannuation Guarantee Contributions, employee salary sacrifice contributions and employee own contributions.

As these moneys are received by your Superannuation fund an ATO contributions tax of 15% is deducted. Then once you are aged 60 years and retired, you can withdraw these funds tax free. All individuals under age 75 whether they are self-employed or employed are able to claim a tax deduction for their superannuation contributions, subject to the limits referred to above. The work test still applies. The taxpayer's employment status is no longer relevant when claiming a tax deduction.

### **Superannuation – Additional tax on Contributions**

Division 293 tax is an extra tax on Super contributions payable where the taxpayer's combined income and super contributions exceed \$250,000.00.

The tax is an extra 15% of the excess contributions plus an ATO processing fee apply.

### **Non-Concessional Contributions**

The non-concessional Super contribution (cannot claim a tax deduction and no contributions tax apply) is capped at \$100,000.00.

It is possible to fast track your non-concessional contributions to a maximum of \$300,000.00 (i.e. 3 years' worth of contributions). This then means you cannot contribute further funds for 3 years.

## **Motor Vehicle Expenses**

The ATO is now differentiating between "work horse" vehicles and normal "cars".

A "work horse" vehicle is defined as vehicles with a carrying capacity of more than 1 ton or at least 9 passengers (ie single cab ute, dual cab ute, mini-van, truck, bus etc).

To claim "work horse" vehicle expenses, the taxpayer must be able to keep actual records of all expenses to verify the business use of the vehicle.

All other vehicles – sedan, SUV, panel van, small dual cab ute are classed as "cars".

To claim car expenses, taxpayers have 2 methods

1. **Cents per kilometre (cpkm) method**

Single flat rate of 68cpkm where work related travel is less than 5,000 kms. Taxpayers to keep an accurate record of the work trips for the full 12 months.

2. **Log-Book method**

- Used when travelling more than 5,000kms work related.

- Log-book must be maintained for a continuous 13 week period to determine a business/private travel percentage during the financial year.

- The business percentage determined can be used for 5 years or until you change cars.

- All records of expenses (fuel, registration, insurance, repairs, loan interest) must be in writing. Credit card statements will suffice in relation to fuel expenses.

Where 2 vehicles are used, the 5,000 limit applies to each vehicle.

If your employer pays you a car allowance, then that is declared as income before the above expenses are claimed.

## Travel Allowance

- Taxpayer must show that the amount being claimed was actually spent.
- Allowances are paid by the employers to the employee to compensate the employee for the additional cost of travel.
- Travel allowances are declared as income and then expenses are claimed as deductions.
- Travel allowances paid to employees travelling on business are not considered living away from home allowances.
- The ATO gives guidelines as to how much is claimable each year, dependent upon the destination of travel, meals, accommodation, other expenses and employee wage levels.
- Where the allowance is not recorded on the employee income statement, and it does not exceed the reasonable amounts, and the allowance has been fully expended, then neither the allowance nor the expense should be included in the tax return.
- Employees can claim expenses they incurred as part of their business travel. The fact that the employee received an allowance does not mean that a deduction can be claimed.
- Where an employee claims no more than the reasonable amounts, then no substantiation is required. However, when claiming more than the reasonable amount, then substantiation is required for the whole amount being claimed,
- Where an employee claims any part of the allowance received, the employer must produce a record of the expenses incurred by way of a 4 week diary of expenses, and
- Where the employee receives LAFH allowance from his employer, he cannot claim any travel allowance expenses.

## Travel Expenses for employees while travelling

- Employee can claim transport costs (ie airfares, work car expenses, taxi, bus costs) so long as
  - they are incurred in gaining income.
  - they are not a private expense, and
  - substantial documents are retained.
- Definition of "work travel"
  - Travel that occurs on work time,
  - Travel under employer's direction/request,
  - Travel is within employees' duties, and
  - Travel relevant to demands of carrying out work duties.
- Travel between 2 workplaces is deductible
  - travel must be direct,
  - purpose must be to earn income at 2<sup>nd</sup> place,
  - Employee must be working in 1<sup>st</sup> place before travel,
  - neither workplace is place of residence, and
  - have not ceased 1<sup>st</sup> place employment at time of travel
- Travel home to work only deductible
  - travel overnight to 2<sup>nd</sup> workplace,
  - travel from a transit point (fly-in/fly-out),
  - 'on call' employee travel between home and work, and
  - taxpayer is carrying bulky equipment while travelling.
- Travel home to alternative workplace is deductible
  - where it is not the regular workplace,
  - cannot be a matter of choice by employee.
- Travel between multiple workplaces with no overnight travel between workplaces – not deductible.
- Travel between multiple workplaces with overnight travel – deductible
- Co-existing work locations travel (secondment) – ATO decision pending.
- Carrying bulky equipment essential for work duties, sufficiently bulky so that vehicle travel is essential and no safe storage place at work – deductible.

## Allowable Deductions

In order to legitimately claim tax deductions, the expenses must be:

- Incurred in the course of earning your income
- Must have a direct relationship to your income earning
- Not be private or domestic nature, and
- Not be capital outgoings.

### Written Evidence Requirement

Where taxpayer's total work-related expenses (excluding donations, tax agent fees) are less than \$300.00pa there is **NO** need for the taxpayer to produce written evidence to substantiate the deduction. Taxpayers, however, need to show how they calculated their claims.

Where employees total work expenses exceed \$300.00pa then the employee must substantiate the whole expense (not just the amount above the \$300.00)

The evidence can be:

- A document from the supplier
- Bank and credit card statements showing the expense
- Bpay receipts and/or email receipts.

Where the total expenses are less than \$200.00 and comprise small expenses of less than \$10.00 each, then taxpayers' evidence of the expenditure is deemed ok.

Receipts must be retained for 5 years from the date of tax return lodgment.

### Work Related Clothing Expenses

Clothing expenditure is regarded as private expenditure and is typically not deductible.

However, expenditure on certain types of occupational clothing can be deductible.

Types of clothing must be either:

- Protective clothing (steel capped boots, sunglasses etc.)
- Specified uniforms (employer has a strictly enforced policy regarding uniforms) and
- Occupation specific clothing (chef uniform etc.)
- Cleaning and maintenance expenses can be claimed without receipts up to \$150.00pa. To claim more than \$150.00pa taxpayers must provide written evidence and calculations to prove their claim.

### Self-Education Expenses

To claim this deduction, the taxpayer must meet one of the conditions when they incur the expense:-

- Course maintains the skills directly required for current work activities
- Course leads to increased income from current work or
- Course has direct connection to taxpayer's current work activities.

No deduction allowed where the course has a general relationship, or leads to new employment.

Claimable expenses include:

- Tuition fees, books, journals, stationery, computer, home office, travel expenses. Contributions to HECS and SFSS debts are not claimable.
- The 1<sup>st</sup> \$250.00 of the total expenses is not claimable.
- 

### Other Work -Related Expenses

Taxpayers can deduct work-related expenses where they are incurred for the purpose of earnings assessable income. They include:

- Union fees, professional association subscriptions,
- Overtime meals (when received a taxable allowance)
- Work related seminars and courses
- Reference books, tools and equipment

### Deduction for Office Running costs

- Running cost include heating/cooling, lighting, cleaning and depreciation of office assets (library, computer, desk, chair, carpets, curtains). Calculation:
  - Floor area percentage,
  - Comparing utility costs before and after the activity commenced
  - Cost per unit of power used
  - 52c per hour (including heating, cooling lighting and depreciation of office furniture)

It is critical to maintain accurate records to determine number the of hours spent working in the home office.

## **Claiming Mobile Phone, Home Phone and Internet Expenses**

Employees can claim deductions for the above costs where:

- Taxpayer incurred the expense with no reimbursement
- There is a connection between the expense and the income earning activities
- No deduction allowed for a private expense

Employees cannot claim expenses for employer provided phones or paid expenditure  
ATO safely allows maximum \$50.00pa total for phone expenses or:

- 0.25c per work calls from landline,
- 0.75c per work calls from mobile, and
- 0.10c per work text message from mobile

Non-bundled phone and internet expenses – taxpayers reasonable estimate is needed where phone and internet accounts are not itemized. A diary for a 4 week period is required to justify the claim and determine the business and private use. (percentage use)

Bundled phone and internet bills – taxpayer to determine cost of each bundled service and then calculate the cost of the business use.

## **COVID-19**

### **Working from home during COVID-19 restrictions**

- Taxpayers/employees can claim expenses for working from home
- Applies from 1 March 2020 to 30 June 2020- 17 weeks – 80 cents per hour.
  - Must relate directly to employment
  - Expenses incurred by the person making the claim
  - Can be substantiated by adequate records
  - Expenses reimbursed by employer cannot be claimed

### **Expenses claimable**

- Heating, cooling, lighting & cleaning for work area
- Phone and internet
- Computer consumables
- Stationery
- Home office equipment

### **Expenses not claimable**

- Home loan interest and rates and taxes
- Rent paid
- Consumables (ie coffee, tea, milk)

### **Expenses claim methods**

- Actual cost – apportion home running costs
- Existing method – claim 52c/hour (heating, cooling, lighting, depreciation of office furniture, computers, printers)
- Shortcut method – applicable only to work required from home during COVID-19

### **Protective Items Purchase**

- Gloves, face masks, sanitizer, antibacterial spray

### **Deduction for Occupancy Expenses**

The home office can be an integral part of the taxpayer's private home and does not lose its private/ non-business character despite some of the home being used as an office.

A taxpayer's home office becomes a place of business when:

- The area can be identified with signage
- The area not suitable for private purpose (i.e. doctor's surgery)
- The area exclusively used as place of business
- The area regularly visited by clients
- The area is the 'sole base of operations' needed by the taxpayer and there is no alternate place from which to operate.

### **Leasing a home office to a related entity:**

- Where the taxpayer is renting out part of his home, he must declare the income received and can claim expenses to the extent that the proportion of the property rented. There is a chance that the taxpayer's property maybe subject to CGT when it is disposed of.
- The taxpayer paying the rent is entitled to claim tax deductions for the rent paid
- The percentage of expenses claimable is determined by floor area of the office being used compared to the total house area or land

## Rental Properties

ATO is increasing its focus on rental properties and claims related thereto.

- Repairs to newly acquired properties.
- Expense is not allowed when it relates to damage etc. which was in existence when property was acquired.
- No deductions allowed when property previously lived in or principal place of residence for repairs done before property is rented out.
- Interest Deductions.
  - Interest can only be claimed to the extent/proportion that the loan was used for business/investment acquisition
  - The property must be rented or genuinely available for rent
  - Taxpayers can claim loan interest when the property is being built or repaired and where work is being done to prepare property for rental
  - Taxpayers can claim interest paid between contract date and settlement date if an existing property, to purchase land for building construction and 'off the plan' purchases.
  - Taxpayers can claim interest on balance of loan when property became rented
  - Taxpayers can claim interest on joint loan related to jointly owned property
  - Taxpayers can claim interest on joint loan for single owned property – deductible to the owner
  - Multiple purpose loan – interest to be apportioned between business proportion and the private proportion
  - Interest on split loan – interest calculated on usual P & I rate and apportioned
  - Penalty rates on early repayment – interest is deductible
  - Bank Guarantee Fees - no deduction allowed
  - Loan shortfall after property sale – interest is deductible and
  - Borrowing expense – taxpayers can claim 1/5 pa for 5 years
- All travel expenses related to residential rental properties are NOT tax deductible.
- Applicable to properties purchased from 9/5/2017, depreciation of plant deductions on used plant is no longer allowed.
- Depreciation on newly built properties and property substantially renovated are allowed. (i.e. depreciation has not been previously claimed)
- Vacant land holding costs (interest, rates and taxes etc.) no longer tax deductible.

## Claimable expenses

- Council, Water, Emergency Service Levy, Land Tax, Strata and Community Corp Levies
- House Insurance and landlord Insurance premiums
- Agent Fees, Advertising
- Gardening, Lawnmowing,
- Repairs
- Bank Charges

## ATO Audit Activity

The Federal Government has allocated some \$1 Bn to the ATO to improve and upgrade its audit activities on personal income tax returns.

Taxpayers must ensure that they are able to provide evidence to justify their expenses in order to survive a Tax Office audit.



Prepared by  
Paul Thomas Finlay  
Finlay Financial Strategies