MOGGS
ACCOUNTING + ADVISORY

NEWSLETTER MARCH 2022

WHAT'S INSIDE THIS ISSUE:

"As long as Autumn lasts, I shall not have hands, canvas and colours enough to paint the beautiful things I see"

Vincent Van Gough

Deductibility of COVID-19 test expenses

The Government has announced that legislation will be introduced to ensure that work-related COVID-19 test expenses incurred by individuals will be tax deductible. Changes will also be made to ensure that FBT will not be payable by employers if they provide fringe benefits relating to COVID-19 testing to their employees for work-related purposes. The changes for deductions will be effective from 1 July 2021, with the FBT changes to apply from 1 April 2021.

Having said that, it is important to note that the ATO will be reviewing claims to determine if they are reasonable. For example, an individual who makes a large deduction claim for COVID-19 test expenses could come under scrutiny if they have been primarily working from home during the income year.

Director ID

The Australian Government has announced the introduction of a new mandatory Director Identification Number (DIN/director ID) as part of the Modernising Business Registry (MBR) Program.

The Director ID scheme is designed to be a unique identifier for all new and current company directors that, once registered, will be used to identify them permanently, even if they cease being a director in the future. The ID has been designed to enable regulators to easily trace the movements and relationships of directors across different companies, assisting them in investigating suspected illegal activity.

All directors can now apply. Keep in mind that you will need to apply on your own behalf, as you will need to provide proof of your identity. A third party, such as an advisor, cannot apply for you but we can help you.

Depending on the date you became a director, the deadlines are as follows:
Existing Directors - By the 30 November 2022
New Directors From 01/11/21 to 04/04/22 Within 28 days of appointment
New Directors From 05/04/22 Before appointment

If you already have a MyGov ID and want to apply now click here

Once you have received your Director ID, please email a copy to admin@moggsadvisory.com.au

SUPERANNUATION REFORMS AND EXTENSION OF TEMPORARY FULL EXPENSING

This Bill, containing a number of significant changes, has passed through Parliament and has received Royal Assent.

TEMPORARY FULL EXPENSING EXTENDED

The Bill extends the temporary full expensing regime by 12 months to 30 June 2023. This means that a range of business entities will be able to claim a full deduction for the cost of depreciating assets regardless of their cost. The rules were due to expire on 30 June 2022. For companies it is important to note that the loss carry back rules have not yet been extended to 30 June 2023, we are still waiting on the relevant legislation to be passed.

SUPERANNUATION REFORMS

The Bill legislates a series of reforms that will take effect from 1 July 2022 including:

- **Work test** - Repeal of the work test for non concessional and salary sacrificed contributions made by individuals aged between 67 and 75

- **Expanding access to bring forward rule to those aged 67-75** - Enabling individuals aged between 67 and 75 to make non concessional superannuation contributions under the bring-forward rule

- **Abolition of $450 SG threshold** - removing the $450 per month income threshold under which employees do not have to be paid the superannuation guarantee by their employer

THE BILL ALSO CONTAINS A NUMBER OF OTHER REFORMS INCLUDING:

- **First home saver scheme** - increasing the maximum amount of voluntary contributions that could be released under the First Home Super Saver Scheme (FHSSS) from $30,000 to $50,000 (applying to requests on or after 1 July 2022).

- **Reducing eligibility age for downsizer contributions** - reducing the eligibility age for making downsizer contributions into superannuation from 65 to 60 years of age from 1 July 2022 (i.e., from 1 July 2022, those aged 60 years of age or more at the time a downsizer contribution if other eligibility criteria met).

- **ECPI calculation** - allows trustees to use their preferred method of calculating exempt current pension income where the fund is fully in the retirement phase for part of the income year but not for the entire income year (applies from the 2021-22 income year onwards).

Cyber Security is important for small business

A cyber security incident can have devastating impacts on a small business. Unfortunately, we are hearing quite regularly from clients who have been hacked or had their identity stolen and in some instances lost large amounts of money.... IT CAN HAPPEN TO YOU!

The Small Business Cyber Security Guide has been specifically designed for small businesses to understand, take action, and increase their cyber security resilience against ever-evolving cyber security threats. The language is clear, the actions are simple, and the guidance is tailored for small businesses.

Click here to access the guide

2022 TAX PLANNING

We are fast approaching the 'Tax Planning' time of year again. This is where our staff will analyse your financial situation and work with you to ensure that all elements of your finances work together to allow you to pay the lowest taxes possible. Below are some things to consider.

1. Deferral of Income
Defer sales until after 30th June.

2. Accelerate Expenses
Make tax deductible expense payments before 30th June. e.g. repairs, maintenance, gravel for driveways, stationery, and consumables.

3. Prepayments (SBE's)
Businesses with turnover less than 10 million may prepay leases, rent, insurance, rates, fuel, fertilizers, fodder, chemicals etc.

4. Wages to Children
Each child can be paid up to $20,370 pa in wages and pay no tax (if this is their only income). These must be "commercially realistic" and be paid before 30th June into the child's bank account.

5. Superannuation
Maximum Super contributions in limited circumstances may be greater than $27,500. Under the unused concessional cap carry forward rules if the 18/19,19/20 and or 20/21 year total concessional contributions were less than $25,000 and the members 30/6/20 balance was less than $500,000 the unused amount can be added to this years $27,500.Beware of age based limits
-Work tests must be met >67 years old
-Only able to make Personal Contributions within 28 days of the month after the member turns 75.

6. Bad Debts
If you have bad debts or likely bad debts make sure these are actually removed from your debtor's records at 30th June.

7. Lease Plant & Equipment (SBE's Only)
If plant & equipment is required before 30th June, then finance by lease, with a large (say annual) lease payment due before 30th June.

8. Negative Gearing
This involves borrowing a sum of money to purchase assets (i.e. property, shares etc) and prepay the interest on the borrowing before 30th June.

9. Tax Schemes
Beware of quick fix tax schemes. At a very minimum the investment proposal should be accompanied with a Tax Office Product Ruling. The investment proposal should make some profit regardless of the tax benefits.

10. Travel Allowance
If you are employed by your own company or trust and you are required to travel overnight for business, then you should pay yourself a "Travel Allowance". No substantiation (i.e. receipts) is required if the claim does not exceed what the tax office considers reasonable (refer to TD 2021/6). Travel Allowance must be paid and must be realistic.

11. Temporary Full Expensing
Small businesses can claim a 100% tax deduction for plant items purchased during 2021/2022.

12. Capital Irrigation & Fencing Work (Primary Producers only)
Any capital irrigation & fencing works are 100% deductible in the year of purchase.

13. Fodder Storage Assets
Fodder storage assets such as Hay sheds, Silos etc. are now an immediate Write-off.

14. Farm Management Deposits (FMD) (Primary Producers Only)
Funds are placed in an FMD with a bank and a tax deduction is gained for the deposit. The funds must be invested for a minimum of 12 months. When the funds are withdrawn, the amount of the withdrawal is included as assessable income and taxed in the year withdrawn. Total cap of contributions is $800,000. You must have less than $100,000 in taxable no primary production income to contribute into FMD's.

15. FBT Exempt Items ('mainly used for business')
employers are able to provide employees with a Laptop Computer and claim a full tax deduction. Also PDA, Mobile Phone, Brief Case, Tools of Trade.

16. Obsolete Stock
When doing your stock take take at year-end, consider valuing old/obsolete stock at its market value (possible zero).

17. Capital Gains Tax Strategies
- If you have capital gains and "unrealized" capital losses, consider realizing (selling) these losses to offset against the gains made
- Defer disposal to next year but remember the date of disposal for CGT is the date of contract signing NOT settlement date
- Defer a disposal to ensure the asset has been held for at least 12 months, in order to access the 50% discount rule.

18. Super Co Contribution
If your total income (taxable + fringe benefits) is less than $57,016 and you make a "personal contribution" into a complying superannuation fund the you may be eligible for the govt co contribution. the max 1 x contribution is available when income is less than $42,016. this also applies to Self Employed people and children earning an income. if you contribute $1000 the government will contribute $500.

19. Minor Fringe Benefits
Fringe benefits given to employees on an irregular and infrequent basis costing less than $300 are deductible to the employer and FBT Exempt. this could include things such as concert tickets, clothing vouchers, gym subscriptions etc up to the value of $300.

OTHER ITEMS TO CONSIDER ARE;

- Life Insurance- consider paying via Super, see your financial adviser
- Prepay income Protection Insurance
- Home loan refinance
- Debt Recycle Strategy

8 Most Common Errors in Income Tax Returns
- Omitting Interest Income
- Incorrect or Omitted Dividend Imputation Credits
- Capital Gains/Losses are incorrect or omitted
- Understating Income
- Home Office Expenses
- Depreciation on Rental Property Fixtures and Fittings
- Borrowing Costs associated with Negative Gearing
- Depreciation on Income Production Buildings

The advice provided above is not to be relied upon without consultation with your Accountant. Please seek advice before implementing these strategies for your circumstances to ensure the best possible outcome.

HOW TO PREPARE FOR A TAX OFFICE VISIT

The Tax Office is actively targeting geographic areas for special visits as part of a nationwide crackdown on the black economy.

This financial year, the ATO has visited 22 regions with another four in progress. Next financial year they plan on visiting over 10,000 businesses.

The ATO is seeking to identify businesses that are hiding sales, paying cash in hand, or are underpaying workers. We have all seen businesses that prefer cash payments (and give discounts for cash), or do not run sales through the cash register. It's likely that in many of these cases this income is not being reported.
The ATO has a plethora of case studies to support these visits, like the $2 million in undeclared income for a series of nail salons owned by the one taxpayer. The ATO's interest was initially piqued by anomalies between the owner's lifestyle and assets, and the income being declared from the salons. In another case a restaurant owner was only declaring eftpos payments and not cash payments received (the cash was kept in a shoe box). An audit revealed unreported income and overclaimed expenses of around $1.1m.

So why these areas? The ATO says these areas exhibit some statistical anomalies, for example, a higher number of businesses not registered for PAYG or GST. Other indicators that set off the ATO 'alarm bells' include businesses that:

- operate and advertise as 'cash only' or mainly deal in cash
- ATO data matching suggest don't take electronic payments
- are part of an industry where cash payments are common
- indicate unrealistic income relative to the assets and lifestyle of the business and its owner
- fail to register for GST or lodge activity statements or tax returns
- under-report transactions and income according to third-party data
- fail to meet super or employer obligations
- operate outside the normal small business benchmarks for their industry
- are reported to the ATO by the community for potential tax evasion – the number of reports received by the ATO shows that the community is less tolerant of unfair practices in these industries.

While it is ok for your business to be outside of the statistical norm, you need to be able to explain why. For example, you might be a gardener with very high deduction claims for equipment outside of what is normal for your industry, but a recent large contract meant that you had to upgrade all of your equipment.
If ATO officers turn up at your business, they may ask you to show them how you record your sales and ask to see the records for the past day or so. If there appear to be anomalies in your reporting, further action might be taken.

They may also check payroll records to ensure that staff are 'on the books' and superannuation entitlements are being met. A classic problem area is cash payments or poor records of family members working in the business. If a family member is employed, unless they are a Director of the business, you need to meet the same standards as if they were not related including minimum wage, PAYG withholding and superannuation guarantee payments.

What you can do to prepare for an ATO visit:

- Have great records, particularly if your business predominantly uses cash
- Make sure your paperwork is up to date - invoicing for services provided, recognition of expenses (with receipts), salaries and cash taken out of the business by the owners
- Ensure staff are recording sales and expenses correctly
- Ensure your business has a separate bank account – it cannot be your personal bank account.

Working from home: What deductions can you claim?

For a while now, the Australian Taxation Office (ATO) has been concerned about tax deductions individuals have been claiming for a whole host of expenses. The latest on their 'hit list' are home office expenses. We guide you through what you can and can't claim if you work from home.

Last financial year, 6.7 million taxpayers claimed a record $7.9 billion in deductions for 'other work-related expenses' which includes expenses for working from home. While the ATO appreciates that technology has led to more people working from home and greater flexibility, they don't believe that all of the claims being made are legitimate. Take the example of the school principal who claimed $2,400 for electricity and phone expenses incurred during the year. The principal had a letter from the school verifying that they were required to work from home outside of school hours but could not explain how she calculated the claim. The principal ended up voluntarily reducing the claim by 70%. Or, the advertising manager who claimed her rent as a tax deduction because she worked from home at irregular hours to manage the timeframes of overseas clients. Her deduction for rent was rejected.

A major bugbear for the ATO are the people who claim 100% of their expenses like mobile phone plans and internet services when they are mostly for personal use. If you claim 100% of your phone and internet and you are not running a business from home, you can expect the ATO to look closely at your claims (that goes for subcontractors as well!).

Working from home

A lot of people do some sort of work from home. It might be simply answering emails on the couch or working from home a few days a week. So, what can you claim if you're putting in extra hours?

If you don't have a dedicated work area but you do some work on the couch or at the dining room table, you can claim some of your expenses like the work-related portion of your phone and internet expenses and the decline in value of your computer. This of course assumes that your employer doesn't reimburse you for your phone and internet expenses and you purchased your computer for yourself.

You can claim up to $50 for phone and internet expenses without substantiating the claim (although the ATO may still ask you to prove that you actually incurred the expense), or you can work out your actual expenses (see Working out the work-related portion of your expenses).

If you have a dedicated work area, there are a few more expenses you can claim including some of the running costs of your home such as a portion of your electricity expenses and the decline in value of office equipment (see Working out the work-related portion of your expenses).

Running a business from home

If your home is your principal place of business, you might be able to claim a range of expenses related to the portion of your home set aside for your business. What the ATO is looking for is an identifiable area of the home used for business. Take the example of a hairdressing business that runs out of the hairdresser's home. One room is dedicated as a salon and is not used for any other purpose other than the salon. For the portion of the house taken up by the salon, the hairdresser can claim running expenses such as electricity and the interest on the mortgage.

The downside to claiming occupancy expenses such as interest on a mortgage is the impact it has on your tax-free main residence exemption for capital gains tax (CGT) purposes. In general, your home is exempt from CGT when you sell it. However, if you use your home to earn assessable income like the hairdresser, then you might only qualify for a partial exemption on the sale. If you are claiming part of your home as a business expense, then it is unlikely that any gain you make on your home will be fully CGT-free. You might also need to obtain a valuation of your home at the time it was first used to generate business income.

WORKING OUT THE WORK-RELATED PORTION OF YOUR EXPENSES

You need to be able to prove how you came up with your expense claim. This includes having a documented method of calculating the work related portion of that claim if the item you are claiming is used for private and work purposes. For phone and internet expenses for example, you might look at the number of work calls, the time spent, or data downloads as a portion of the total bill.

The other method is to complete the equivalent of a log book or diary over four weeks to track your work use of the item, then apply the work percentage over that four weeks to your annual expense. If for example you used your phone for 20% of the time over the four weeks you documented in your diary, you could then claim 20% of your annual phone expense as a home office expense (assuming your circumstances don't change across the year).

What home office expenses can be claimed?

• **Running expenses** – if you have a dedicated work area such as a study set aside for work, the essentials to keep the work area running like electricity, cleaning, office equipment etc., can be claimed as an expense. Of course, any claim can only be for the work-related portion of the expense. If your family use your home office as well or you use it for personal use, then you can only claim a portion of the expense. Running expenses can be claimed:

- at a fixed rate of 45 cents per hour - you will need to track either the actual amount of time you work from home or keep a log book over 4 weeks that can be applied to your expenses across the year or

- as an actual expense – to claim an actual expense you need to document the total expenses for lighting, cleaning, heating and cooling for your home for the year, work out the floor area of the part of your home that you use for work as a percentage of the total floor area, and then work out the percentage of the year you used that part of your home exclusively for work.

• **Occupancy expenses** – expenses such as rent, interest on your home loan, property insurance, land taxes and rates can only be claimed if your home is your 'place of business' and no other work location has been provided to you. A place of business is unsuitable for any other use other than business like a doctor's surgery connected to a home or a hairdressing salon in a room of the house. Occupancy expenses can be claimed by calculating your total expenses × floor area × percentage of year that part of your home was used exclusively for work. Generally, occupancy expenses are not a deduction available to employees.

• **Work related phone and internet expenses** – unless you run your business from home and you have a dedicated phone and internet line it's unlikely you can claim 100% of your phone and internet expenses. If your employer provides you with a phone, you cannot make any claim for these expenses. If you are a casual worker you cannot claim a deduction for phone rental expenses. For the rest of us, you can claim up to $50 for phone and internet expenses without substantiating the claim (but the ATO still might expect you to prove the claim), or you can work out your actual expenses. Claims for actual expenses can be made by working out the work-related use of the phone and internet and then applying that percentage to the expenses.

• **Decline in value** – for depreciable assets such as computers and printers, you might be able to claim decline in value if the cost of the item was over $300. Decline in value deductions might also be available for office furniture used for work purposes in a home office, but not if the individual is using the fixed rate of 45 cents per hour to claim running expenses.

Expenses	Home is principal workplace with dedicated work area	Home not principal workplace but has dedicated work area
Running expenses	Yes	Yes
Work-related phone & internet expenses	Yes	Yes
Decline in value of a computer (work related portion)	Yes	Yes
Decline in value of office equipment	Yes	Yes
Occupancy expenses	Yes	No

Pay your outstanding Moggs Accounting + Advisory account in full before Friday 8th April 2022 for your chance to win this amazing Easter hamper and $100 off your next Moggs invoice

Office Closure For Easter

All offices will be closed from 5:30pm on Thursday 14th April 2022 and reopen 8.30am on Tuesday 19th April 2022.

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