What's in this issue

MOGGS

ACCOUNTING + ADVISORY

NEWSLETTER JUNE 2022

It's nearly the end of financial year... that means it's time to do some Tax planning.

BEFORE JUNE 30 YOU NEED TO-

1. Check what record keeping and other tasks you need to complete.
Some of the yearly tasks you need to do as a small business owner may include:

- a summary of income and expenses in a profit and loss statement
- conducting a stocktake
- summaries of your record of debtors and creditors
- collating records of asset purchases or expenditure on improvements (to calculate depreciation expense claims and for capital gains tax)
- completing and lodging your income tax returns
- lodging yearly reports or returns for
  - pay as you go (PAYG) withholding including finalising income statements for single touch payroll
  - fringe benefits tax (FBT)
  - goods and services tax (GST)
  - the taxable payments reporting system
- meeting superannuation requirements
- making digital copies of any paper records and backing them up.

2. Find out what tax deductions and concessions you can claim
You can claim deductions for most business expenses, as long as they directly relate to earning your income. For example, you may be able to claim deductions if your business:

- has set up a website
- has motor vehicle expenses
- uses diesel fuel
- operates at home
- has travel expenses
- uses machinery, tools or computers.

You must have records to prove the expenses that you claim as business deductions.

Consider planning for the end of year. Try to write off any debtors or assets before the year ends to claim a tax deduction.

There are also a number of **tax concessions** available to support small business. Consider whether you can make use of some of these before the end of the financial year.

Changes from 1st July 2022

Superannuation guarantee increase to 10.5%

The Superannuation Guarantee (SG) rate will rise from 10% to 10.5% on 1 July 2022 and will continue to increase by 0.5% each year until it reaches 12% on 1 July 2025.

If you have employees, what this will mean depends on your employment agreements. If the employment agreement states the employee is paid on a 'total remuneration' basis (base plus SG and any other allowances), then their take home pay might be reduced by 0.5%. That is, a greater percentage of their total remuneration will be directed to their superannuation fund. For employees paid a rate plus superannuation, then their take home pay will remain the same and the 0.5% increase will be added to their SG payments.

$450 super guarantee threshold removed

From 1 July 2022, the $450 threshold test will be removed and all employees aged 18 or over will need to be paid superannuation guarantee regardless of how much they earn. It is important to ensure that your payroll system accommodates this change so you do not inadvertently underpay superannuation.

For employees under the age of 18, super guarantee is only paid if the employee works more than 30 hours per week.

Profits of professional services firms

The ATO has been concerned for some time about how many professional services firms are structured - specifically, professional practices such as lawyers, accountants, architects, medical practices, engineers, architects etc., operating through trusts, companies and partnerships of discretionary trusts and how the profits from these practices are being taxed.

New ATO guidance that comes into effect from 1 July 2022, takes a strong stance on structures designed to divert income in a way that results in principal practitioners receiving relatively small amounts of income personally for their work and reducing their taxable income. Where these structures appear to be in place to divert income to create a tax benefit for the professional, Part IVA may apply. Part IVA is an integrity rule which allows the Tax Commissioner to remove any tax benefit received by a taxpayer where they entered into an arrangement in a contrived manner in order to obtain a tax benefit. Significant penalties can also apply when Part IVA is triggered.

A new method of assessing the level of risk associated with profits generated by a professional services firm and how they flow through to individual practitioners and their related parties, will come into effect from 1 July 2022. Professional firms will need to assess their structures to understand their risk rating, and if necessary, either make changes to reduce their risks level or ensure appropriate documentation is in place to justify their position.

Lowering tax instalments for small business – PAYG

PAYG instalments are regular prepayments made during the year of the tax on business and investment income.
The actual amount owing is then reconciled at the end of the income year when the tax return is lodged.

Normally, GST and PAYG instalment amounts are adjusted using a GDP adjustment or uplift. For the 2022-23 income year, the Government has set this uplift factor at 2% instead of the 10% that would have applied. The 2% uplift rate will apply to small to medium enterprises eligible to use the relevant instalment methods for instalments for the 2022-23 income year:

- Up to $10 million annual aggregated turnover for GST instalments, and
- $50 million annual aggregated turnover for PAYG instalments

The effect of the change is that small businesses using this PAYG instalment method will have more cash during the year to utilise. However, the actual amount of tax owing on the tax return will not change, just the amount you need to contribute during the year.

Trust distributions to companies

The ATO recently released a draft tax determination dealing specifically with unpaid distributions owed by trusts to corporate beneficiaries. If the amount owed by the trust is deemed to be a loan then it can potentially fall within the scope of the integrity provisions in Division 7A.

If certain steps are not taken, such as placing the unpaid amount under a complying loan agreement, these amounts can be treated as deemed unfranked dividends for tax purposes and taxable at the taxpayer's marginal tax rate.

The ATO guidance deals specifically with, and potentially changes, when an unpaid entitlement to trust income will start being treated as a loan depending on the wording of the resolution to pay a distribution. The new guidance applies to trust entitlements arising on or after 1 July 2022.

Home loan guarantee scheme extended

The Home Guarantee Scheme guarantees part of an eligible buyer's home loan, enabling people to buy a home with a smaller deposit and without the need for lenders mortgage insurance. An additional 25,000 guarantees will be available for eligible first home owners (35,000 per year), and 2,500 additional single parent family home guarantees (5,000 per year).

Work-test repeal – enabling those under 75 to contribute to super

Currently, a work test applies to superannuation contributions made by people aged 67 or over. In general, the work test requires that you are gainfully employed for at least 40 hours over a 30 day period in the financial year.

From 1 July 2022, the work-test has been scrapped and individuals aged younger than 75 years will be able to make or receive non-concessional (including under the bring-forward rule) or salary sacrifice superannuation contributions without meeting the work test, subject to existing contribution caps.

The work test will still apply to personal deductible contributions.

This change will also see those aged under 75 be able to access the 'bring forward rule' if your total superannuation balance allows. The bring forward rule enables you to contribute up to three years' worth of non-concessional contributions to your super in one year.

Downsizer contributions from age 60

From 1 July 2022, eligible individuals aged 60 years or older can choose to make a 'downsizer contribution' into their superannuation of up to $300,000 per person ($600,000 per couple) from the proceeds of selling their home.

Currently, you need to be 65 years or older to utilise downsizer contributions. Downsizer contributions can be made from the sale of your principal residence that you have owned for the past ten or more years. These contributions are excluded from the age test, work test and your total superannuation balance (but not exempt from your transfer balance cap).

First home saver scheme – using super to save for a first home

The First Home Super Saver Scheme enables first home buyers to withdraw voluntary contributions they have made to superannuation and any associated earnings, to put toward the cost of a first home. At present, the maximum amount of voluntary contributions you can make and withdraw is $30,000. From 1 July 2022, the maximum amount will increase to $50,000. The benefit of this scheme is the concessional tax treatment of superannuation.

Cyber Security Tip

Scammers often call claiming to be from Telstra or other well-known organisations and ask for remote access to your computer.

They might state they want to help you secure your device from security threats. These calls are a scam - never give remote access to a stranger!

Single Touch Payroll (STP) - Phase 2

There have been changes to Single Touch Payroll (STP).
You need to start reporting additional information on or before each pay day. This is known as STP Phase 2.

STP Phase 2 started on 1 January 2022. Some Digital Service Providers (DSPs, e.g MYOB, XERO, Reckon) needed more time to update their products and transition their customers. If your DSP has a deferral, this covers you.

WHAT ARE THE MAIN CHANGES IN STP PHASE 2?

STP Phase 2 introduces changes that reduce reporting requirements across the following four areas.

1. Tax File Number Declarations
Information collected from TFN declarations – including the TFN itself, employment type and whether the employee has a HECS-HELP debt — is to be included in STP reports and the declaration itself will no longer need to be sent to the ATO.

2. Employee Separation Certificates
These certificates are no longer required, as the reason why an employee has left the business will now be provided via STP reports.

3. Lump Sum E payments
Previously, if an employer makes a payment owing from previous years a Lump Sum E letter would need to be provided to the employee. This information must now be included in Phase 2 reporting, with details of the payment appearing in the employee's income statement.

4. Child Support
Businesses will have the option to include child support garnishees and deductions in their STP report, reducing the need to provide separate advice to the Child Support Registrar. (Please note: this option is not yet available in MYOB products.)

Additional reporting requirements are introduced for employment type, disaggregation of gross income and the inclusion of country codes as per the below.

1. Employment Type
Previously optional, reporting of employment type will be mandated under Phase 2 reporting. Businesses will need to declare whether their employees are full-time, part-time or casual, in addition to new categories such as labour hire or volunteer.

2. Disaggregation of Gross
Income will no longer be reported as a gross sum, instead each component must be itemised including salary sacrifice, overtime, paid leave, bonuses, commissions, director's fees and allowances (allowances must also be individually itemised).

3. Country Codes
If you have Australian resident employees working overseas, businesses will need to provide details of the host country.

ATO ramps up heat on Directors

Throughout March, the ATO sent letters to directors who are potentially in breach of their obligations to ensure that the company they represent has met its PAYG withholding, superannuation guarantee charge, or GST obligations.
These letters are a warning shot and should not be ignored.

The director penalty regime ensures that **directors are personally liable for certain debts of the company** if the debts are not actively managed. The liability applies to both current and former directors.

To recover this debt, the ATO will issue a director penalty notice to the individual directors. The ATO can then take action to recover the unpaid amount, including:

- By issuing garnishee notices,
- By offsetting tax credits owed to the director against the penalty, or
- By initiating legal recovery proceedings against the director.

In some cases it is possible for the penalty to be remitted but this depends on when the PAYGW, GST or SGC amounts are reported to the ATO. For example, in some cases the penalty can be remitted if an administrator or small business restructuring practitioner is appointed to the company, or the company begins to be wound up. However, this is normally only possible for PAYGW and GST amounts if they are reported to the ATO within 3 months of the due date. For SGC amounts this is only possible if the unpaid amount is reported by the due date of the SGC statement.

If the unpaid amounts are not reported to the ATO by the relevant deadline then the only way for the penalty to be remitted is for the debt to be paid in full. Winding up the company at this stage will not make the liability of the directors go away.

If you have received a warning letter from the ATO or a Director penalty notice then please contact us immediately.

END OF FINANCIAL YEAR GIVEAWAY

We are giving you the chance to win $500 off your Fee!

All you need to do is pay your outstanding account in FULL before 30th June 2022 to go in the draw!
Winner will be announced 5th July 2022