The Bottom Line NEWSLETTER
Winter 2023 - Issue No. 98
elphinstone stevens pty ltd

Budget

Budget 2023–24

Treasurer Jim Chalmers delivered the Federal Budget 2023-24 on Tuesday 9th May.

The Budget focused on softening the blow of inflation and increased cost-of-living. The main areas which we believe could affect our clients are:

- Temporary increase in the instant asset write-off threshold to $20,000 for small business (the full expensing of plant ceases 30 June 2023)
- Incentives to electrify assets and improve energy efficiencies
- Increasing the frequency of superannuation guarantee payments
- Earnings for superannuation balances above $3 million taxed at 30%

The economic forecasts for the next two years foreshadow significant challenges. The business sector is likely to see this Budget as a missed opportunity for the Government to deliver more visionary reforms.

$20,000 instant asset write off
From 1 July 2023 until 30 June 2024, the Government will temporarily increase the instant asset write-off threshold from $1,000 to $20,000. Small businesses with an aggregated annual turnover of less than $10 million will be able to immediately deduct the full cost of eligible assets costing less than $20,000 that are first used or installed ready for use between 1 July 2023 and 30 June 2024. The $20,000 threshold will apply on a per-asset basis, so small businesses can instantly write off multiple assets. Assets valued at $20,000 or more (which cannot be immediately deducted) can continue to be placed into the small business simplified depreciation pool and depreciated at 15% in the first income year and 30% each income year thereafter. The provisions that prevent small businesses from re-entering the simplified depreciation regime for five years if they opt-out will continue to be suspended until 30 June 2024.

New Energy Incentive for small business
Small and medium businesses with an aggregated annual turnover of less than $50 million will be able to deduct an additional 20% of the cost of eligible depreciating assets that support electrification and more efficient use of energy. Up to $100,000 of total expenditure will be eligible for the Small Business Energy Incentive, with the maximum bonus deduction being $20,000.

Increasing the frequency of superannuation guarantee payments
From 1 July 2026, employers will be required to pay their employees' superannuation guarantee entitlements on the same day that they pay salary and wages. Currently, employers are only required to pay their employees' superannuation guarantee on a quarterly basis. By increasing the payment frequency of superannuation to align with the payment of salary and wages, this measure aims to ensure employees have greater visibility over whether their entitlements have been paid and better enable the ATO to recover unpaid superannuation.

Earnings for superannuation balances above $3 million taxed at 30%
From 1 July 2025, the Government will reduce the tax concessions available to individuals with a total superannuation balance exceeding $3 million. Individuals with a total superannuation balance of less than $3 million will not be affected.

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Please Remember

By necessity the contents of this newsletter are summary only. Clients should contact us on 6431 3933 to discuss matters prior to acting.

ATO social media impersonation accounts scam

We're seeing an increase in fake social media accounts impersonating the ATO, our employees and senior executive staff across Facebook, Twitter, TikTok, Instagram and other platforms.

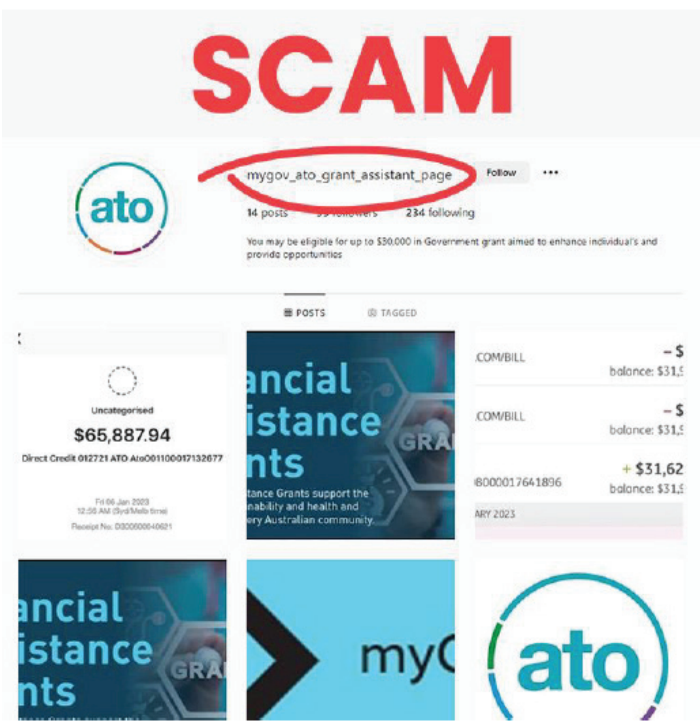
These fake accounts ask users that interact with the ATO to send them a direct message so they can help with their enquiry. The people behind these fake accounts are trying to steal your personal information, including phone numbers, email addresses and bank account information.

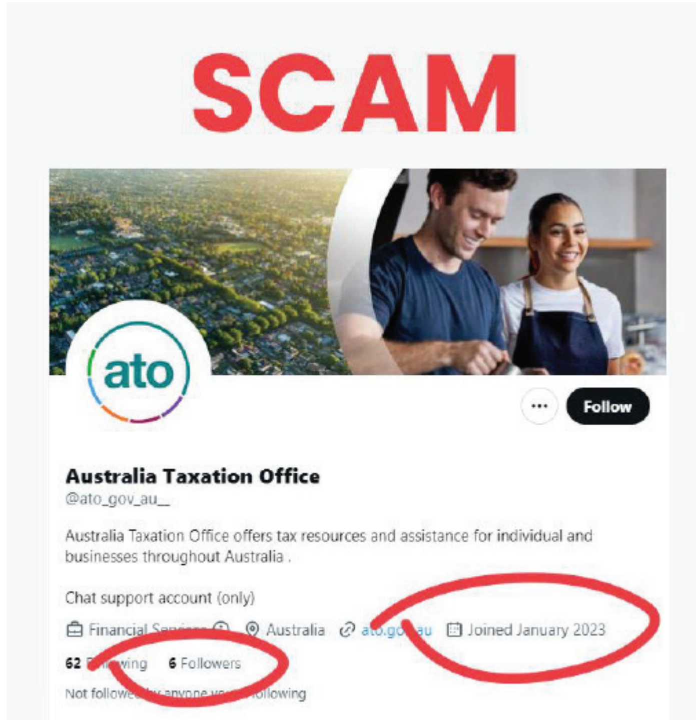
Our only official accounts are on Facebook, Twitter and LinkedIn.

The best way to verify that it's really the ATO is to:

- check how many people follow the account. Our verified Facebook and LinkedIn accounts have over 200,000 followers, and our Twitter account has over 65,000 followers
- check activity on the accounts. Our social media channels have been operating for around 10 years – if it's a newly created account, or only has a few posts, it's not us
- look for the grey tick next to our username (@ato_gov_au) on Twitter and the blue tick next to our name (Australian Taxation Office) on Facebook
- make sure any email addresses provided to you end with '.gov.au'.

The images below show examples of what impersonation accounts might look like.





If you're approached by an impersonation account, do not engage with them. Take a screenshot of the account, email the information to ReportEmailFraud@ato.gov.au and block the account through the social media platform's reporting function.

Taxpayers not carrying on an agistment business

Agistment income is often misunderstood as it is not a primary production activity unless it is integrated with other primary production activities of an entity.

The Administrative Appeals Tribunal ('AAT') has held that two taxpayers were not carrying on a business of providing services to a company (which they owned) and consequently were not entitled to various deductions.
The taxpayers had claimed those deductions on the basis that they were carrying on a business of providing agistment and full care animal husbandry and veterinary services to their company.

The AAT concluded that, on balance, the agistment arrangements did not constitute a 'business'.

The AAT noted in this regard that there was a degree of systematic, business-like behaviour. However, the AAT was of the view that the absence of a profit-making purpose, the uncommercial nature of the transactions and similar considerations nevertheless led to the conclusion that a business was not being carried on.

Residential investment property loan data-matching program

The ATO has advised that it will acquire residential investment property loan data from authorised financial institutions for the 2021/22 through to 2025/26 financial years, including:

- client identification details (names, addresses, phone numbers, dates of birth, etc);
- account details (account numbers, BSBs, balances, commencement and end dates, etc);
- transaction details (transaction date, transaction amount, etc); and
- property details (addresses, etc).

The ATO estimates that records relating to approximately 1.7 million individuals will be obtained each financial year.

The principal uses of the data include "education and online services" and "data analytics and insights", as well as to help the ATO "identify relevant cases for administrative action, including compliance activities".

The ATO has a dedicated webpage dealing with its data-matching protocols (currently 24 in total). It states on this webpage that: "Matching external data with our own helps us to ensure that people and businesses comply with their tax and super obligations. It also helps us to detect fraud against the Commonwealth."

New 15% super tax to apply from 1 July 2025

The Government recently announced it will be imposing a 15% additional tax on individuals that have more than $3 million in superannuation. The new measure is expected to commence from 1 July 2025 (i.e., the start of the 2026 income year).

The main takeaways from the information provided thus far include the following:

- The additional 15% tax will broadly apply to the annual movement in the value of an individual's superannuation balance, adjusted for withdrawals and contributions. These 'earnings' are further adjusted to ensure only the proportion corresponding to the balance above $3 million will be subject to the new tax.
- There will be no limit imposed on the size of superannuation account balances.
- Individuals will have the choice of paying the tax liability personally or from their super fund.

In current terms, the Government expects that the new tax will apply to 0.5% of people with money in superannuation (around 80,000 people). However, the proposal does not currently allow for indexation of the $3 million threshold, so more individuals may be impacted in the future.

Editor: The Government will consult on the implementation of this proposed measure, so expect to hear much more about it before 2025!

ATO target areas: rental property deductions; work-related expenses; CGT

The ATO has issued a media release setting out its three focus areas for what it terms "this Tax Time", ie the lodgement of 2022-23 returns.

The first area is rental property deductions. The ATO states that it will look at rental income being left out or mistakes being made with property-related deductions.

The ATO will also be focused on interest expenses and ensuring that rental property owners understand how to correctly apportion loan interest expenses where part of the loan was used for private purposes (or the loan was re-financed with some private purpose).

The second category relates to work-related expenses. The ATO focuses on the changes to the work from home rates in the context of more people returning to offices than before. The revised rules for this year are set out in PCG 2023/1. The media release states that to claim working from home expenses as a deduction, taxpayers can use the actual cost, or the revised fixed rate method, as long as they meet the eligibility and record-keeping requirements.

The third category is CGT. The release addresses the main residence exemption in the context of service entities like Airbnb and Stayz. It states that such income producing activity may have a CGT implication. It also notes that all assets should be accounted for, i.e. "don't fall into the trap of thinking we won't notice if you sell an asset for a gain and don't declare it".

Know the rules for accessing superannuation

The ATO has reminded SMSF trustees that their SMSF must be operated for the sole purpose of providing retirement benefits for its members. This means SMSF trustees can't use funds from their SMSF to pay for personal or business expenses. This is known as 'illegal early access' of superannuation, and severe penalties apply.

The ATO also reminds SMSF trustees that there are rules regarding what they can invest in when dealing with a related party.

The ATO has recently released a factsheet to help SMSF trustees understand the rules on accessing their superannuation, and make sure they (and their business, if any) comply with the rules surrounding SMSFs.

Tax Planning

Has your business had a profitable year? It may be wise to contact us regarding tax planning opportunities prior to June 30 to legally reduce the amount of tax you have to pay. The ways in which you can do this will largely depend upon whether your business is eligible for the Small Business Tax Concessions (turnover less than $50 million excluding GST).

Listed below are some suggestions on how to minimise your income tax. We strongly recommend you contact our office first, to discuss your particular situation. To defer income, businesses can postpone customer invoicing until after 30 June. Businesses not claiming the small business concessions may also defer asset (plant) sales until after 30 June.

If your business is eligible for the Small Business Tax Concessions you may also consider:

- Purchasing plant and equipment as an immediate deduction is available
- Prepay expenses likely to be incurred over coming months (up to 12 months).
- If you are leasing equipment up to 12 months of lease instalments can be paid prior to 30 June and claimed as a deduction.

All businesses should review their debtors and write off any bad debts before 30 June 2023. You should also consider making donations to a Deductible Gift Recipient (DGR) prior to 30 June in order to claim as a tax deduction.

If you are a Primary Producer, the following may also apply:

- An individual may use Farm Management Deposits (FMDs) – a particular bank account where you deposit minimum of $1,000, maximum $800,000.
- You are able to claim a deduction for the deposit, provided you meet other eligibility criteria (ie. Non-Primary Production Income less than $100,000 is one of these). The funds must be invested for at least 12 months. The withdrawal will then be treated as assessable income in the year withdrawn.
- Build/Buy water conservation assets (ie. dams, tanks, irrigation channels pumps etc. – An immediate deduction is available.
- Construct fodder storage assets – An immediate deduction is available (this includes barns & silos used to store grain).
- Renew fencing. Fencing costs including new fences can also be immediately deducted.

If cash flow allows, anyone in business may wish to bring forward repairs or major services required.

If cash flow allows, individuals may claim a tax deduction for personal superannuation contributions. Please be aware, any contributions deducted will be taxed at 15% within the fund and the maximum concessional contribution is generally $27,500. There are other rules surrounding this also.

It is important to note, bringing forward tax deductions or deferring income to a later year will of course affect the next year; which may have an adverse effect if you defer too much to the following year. To determine the most tax effective strategy, it is best you speak to us and we can assist in determining your estimated 2023 taxable income and hence estimated tax.

Last chance to claim deductions under temporary full expensing

Deductions under 'temporary full expensing' are only available in the 2021, 2022 and 2023 income years, and this ends on 30 June 2023. Plant must be delivered & installed by 30 June 2023 in order to claim.

Editor: Under temporary full expensing, businesses with an aggregated turnover of less than $5 billion can generally claim a deduction for the full cost of eligible new assets first held, used or installed ready for use between 6 October 2020 and 30 June 2023, as well as (in some circumstances) costs of improvements to those assets and also the cost of eligible second-hand assets.

Taxpayers can choose to opt out of temporary full expensing for an income year for some or all of their assets, and claim a deduction using other depreciation rules, by notifying the ATO in their tax return that they have chosen not to apply temporary full expensing to those assets.

Editor: Please contact our office if you require any assistance in relation to temporary full expensing.

The team at Elphinstone Stevens wish to thank you; our clients for your continued support and patience.

As many of you may be aware we have undergone some significant staffing changes in the past 6 months which unfortunately has temporarily impacted on some of our service offerings.

We are sure you will join with us in wishing all departing staff well as they choose differing accounting career paths.

We have also welcomed some fabulous new team members; which have brought a multitude of experience and knowledge to our team. We will be sure to introduce them to you in future issues. Many of you may have already been introduced to some of our new team members and over the coming months we are sure many more of you will have the pleasure of meeting them.

We hope that you continue to work with us as we continue to look after you and your businesses as you strive to reach your financial, business and personal goals.

If you have any concerns around any of this please reach out.

Again; thank you!