## Happy New Year from Kerri,

Welcome to the 2021 Financial Year!

Isn’t that a blessed relief to leave 2020 behind? What a year! Not necessarily one we want to celebrate, but we should acknowledge the good that came from it.

Well done to everyone on embracing Zoom appointments (they are working really well), Social Distancing in the office, patience with the team working remotely, and all of you who took to our new Client Portal.

I would like to also personally thank my team who stepped above and beyond to make working from home as seamless as possible. We are still catching up thanks to the 3+ months lost to JobKeeper and my Team continues to amaze me with their resilience.

Thank you to you as well, for your patience and understanding, and for all the lovely messages of support. I’ve always said I have the best clients, and you just proved it. So, thank you.

Here’s to 2021 kicking sand in the face of 2020. Here’s to everyone getting back to work, working out our new normal, and continuing to support our communities in the best ways that we can.

***Difficulty with our stairs?***

Let us know. We are more than happy to run down and collect your paperwork, meet you in a coffee shop, or visit you at work / home. We know the stairs are difficult and we will work with you to minimise this difficulty.

***Paperwork to collect?***

We will be open on Saturday 25th July from 9am until 1pm for you to collect any original documents still in our office after completing your return. We would appreciate as many of you as possible coming by to collect your paperwork. With social distancing in play, we have quite a collection of papers that we would like to see collected.

Can’t make it on this date? Please call the office and we can make an alternate time.

***Client Portal update***

We are thrilled with how well everyone took to the Client Portal. Aren’t we glad too, given social distancing and COVID?

We didn’t have it operational at the beginning of the year so some of you missed out. We will add you as your work comes in.

Whilst most of you found it easy, some of you found it a bit harder, especially when using your phones.

There is a tutorial video you can watch with really clear instructions. You can find this by following the links on our website to the Client Portal. Have a look at the 5 -minute mark for authorising details.

We will not be emailing documents for signing. Email is not secure. Our Client Portal is incredibly secure and has the added advantage of 24/7 access should you need copies whilst with the bank. For this reason, we are suppressing your Tax File Number so you can share the download with your lender (or Centrelink) without having to ask us for additional copies.

This seems like a really good time to remind you to be careful with your Tax File Number.

Cheryl is excellent in talking you through the Client Portal.

***Personal Superannuation Deductions***

Superannuation Super Contributions can be claimed by employees and the self-employed. It is deductible in the year that the super fund receives it – not when you pay it.

You also need to lodge a Notice of Intention (NOI) to Claim with your super fund after 30th June and have received the Acknowledgement from the fund of this NOI. We had a number of clients audited this year on this obligation. We passed with flying colours on all of them as we will always keep a copy of the Acknowledgement on your file and can respond to the Tax Office promptly.

***So many documents no longer issued***

A reminder that Income Statements (previously called Payment Summaries, and before that Group Certificates) are sent direct to the Tax Office and your employer does not need to give you one. In fact, most accounting software does not have the functionality to issue a statement to employees.

Your Centrelink income (incl JobSeeker) will not be reported to you.

Your Private Hospital Insurance statements will also be sent direct to the Tax Office.

This information is now provided electronically to your MyGov account and to the Tax Agent Portal. So, chances are, we will know about it before you do.

The information will gradually populate throughout July (and some of it even later). For this reason, the Tax Office is pleading with us not to lodge any returns until August. Failing to include information which will later become available on the Tax Agent Portal or MyGov will see additional work required and possible interest for additional amounts of tax payable. The Tax Office also intends to penalise those eager beavers who lodge before the information is available.

Not sure what information the Tax Office has? This year, we are uploading your PFR (Prefilling Report) to the client portal when you make your appointment. Feel free to contact the office prior to this for your copy to help you prepare your information. We can mail it to you if necessary. For privacy / security reasons, we will not be emailing it.

***ATO Hot Spots – Audit Targets***

 **Work related expenses** – The Tax Office will be paying particular attention to work related travel and laundry. They have *promised* to audit and deny a lot of claims.

The perennial hotspots for rental properties and cash economy will also remain a top focus.

Remember, to be eligible to claim a deduction, you need to prove you paid it (receipt), prove its connection with your income producing activities (nexus), and you must keep the appropriate documentation such as usage diaries (substantiation).

**Rental Properties** – Always on their radar, and every year they have access to more and more data with which to identify who to audit.

**Home-based businesses and CGT** – the ATO is paying particular attention to business operators working from home who have not declared the CGT on the sale of their home.

**Uber and Ride Sharing** – the ATO is using information obtained from these ride sharing platforms to identify participants who are no declaring all of their income.

***Appointments in a COVID world***

We managed COVID as well as could be expected. Our team up working from home fairly quickly. It was not an efficient way to work and most of the team came back to the office as soon as allowed.

We managed most of our interviews by Zoom and telephone with very few face-to-face appointments.

One thing that became really clear is that not everyone needs an interview / appointment prior to us commencing your work. Giving us your information (by email or dropping it off to the office) was enough for us to get started. Our file notes are detailed and made this easy.

We also found, most times, a mid-way catch-up was more productive than an initial appointment.

We are going to encourage proceeding with this in the 2020 tax season. If we can minimise unnecessary appointments, we keep our community safe and we can still meet with those that need or want an appointment.

To help, we are sending out a checklist that covers the most common information needed and identifies where additional follow up may be needed. We have included one copy with this newsletter.

You may photocopy it, request a copy to be emailed or mailed to you, or download additional copies from our website under ***Resources and Links***. Regardless, when you are ready to provide your Tax Information, we will send it to you again as an email as part of the login process for your tax return.

After we have commenced your work, we will call you with any queries or arrange an appointment if necessary.

Information can also be uploaded to our Client Portal. You will notice that we will copy your data out of the Client Portal as too many documents make it hard to find your tax returns over time. It’s a straightforward process and more details are outlined in the Tutorial Video or feel free to get Cheryl or Mal to talk you through it.

***Claiming your Working from Home***

As a result of working from home during the COVID-19 pandemic, the ATO will allow individuals to claim a deduction for all running expenses incurred during the period **1 March 2020 to 30 June 2020**, based on a rate of **80 cents for each hour**that an individual carries out genuine work duties from home. This does not include carrying out minimal tasks such as occasionally checking emails or taking calls and you do not have to have a separate or dedicated area of your home set aside for working, such as a private study.

This is an alternative method to claiming home running expenses under existing arrangements, which generally require an analysis of specific running expenses incurred and more onerous record-keeping.

Under the short cut method, you only need to keep a record of the number of hours you have worked from home as a result of COVID-19 and includes timesheets, diary notes, or rosters.

Expenses covered by the 80 cents per hour shortcut method include:

* Electricity expenses associated with heating, cooling, and lighting.
* Cleaning costs for a dedicated work area.
* Phone and internet expenses.
* Computer consumables (ink) and stationery.
* Purchase or Depreciation of home office furniture and furnishings (office desk/chair).
* Purchase or Depreciation of home office equipment (computer/printer).

This means that, under the shortcut method, separate claims **cannot** be made for any of the above running expenses. As a result, using the 80 cents per hour method could result in a claim for running expenses being lower than a claim under existing arrangements. We will work with you to determine the best claim method for your circumstances and supported by your records.

***Rental Properties – Repairs and Maintenance***

Please ensure you provide information on any repairs or improvements to your rental property that have cost you $300 or more. We need a break down of the expense (including the date) to determine if the Tax Office allows us to claim it as a repair, or if it needs to be depreciated.

***Best Email Address***

Our preference is that emails are sent to admin@KDCaccounting.com.au

Using this email address means that your emails are promptly and correctly saved in our system. It is a requirement of our Professional Indemnity Insurance that all emails are saved in our software program.

Kerri is often overwhelmed by email, and this helps with team members attending to as many as possible for her, and Kerri doesn’t need to save it.

We aren’t saying you can’t email Kerri, or any other team member, just that we are more efficient if you send it via the admin email address as several team members monitor this email inbox.

***ATO Warns against early lodgement***

The Tax Office has warned against early lodgement and that they will pay particular attention to those returns lodged in July.

The deadline for employers to finalise Income Statements (Payment Summaries) has been extended to 31st July. We also need to wait for Investment companies and Banks to advise your earnings.

Your Private Health Insurance (PHI) insurer also needs to advise your policy details to the Tax Office.

The Tax Office has ***strongly recommended*** that we do not lodge any returns until August. Anyone lodging early should be prepared for closer scrutiny by the Tax Office when they lodge, and again later in the year when the Tax Office is more confident in the information available via the Tax Portal.

KDC Accounting will commence preparing returns in July but we plan to defer lodgement until August so that we can check the Tax Portal for updates.

***After hours payment of our fees***

We are working on our website to provide easier ways to pay our fees including payment by credit card via our website. Many of you have asked for this as it allows you to attend to payment even when the office is closed.

Hopefully, this is operational by the time you receive this newsletter – otherwise it is very close.

***ATO Contacting Employers***

The ATO is contacting employers to confirm the validity of your work-related deductions like travel in your own car or ute, and self-education. We recommend a letter of support from your employer wherever possible.

***How our fee structure works***

Given the additional phone calls and advice required during COVID, we thought it a timely opportunity to remind you that our fees are linked to the amount of time and complexity of your matter.

We will always try to give an indication of our fees when asked, but it is linked to the amount of time required for the task.

We are also noticing that much more of our time is now spent on advice rather than just preparing tax returns. The current fees we charge for your return do not cover the costs for us to provide advice all year round.

This means that phone calls and emails are charged for – separately to your tax return fee.

Further, our Professional Indemnity Insurance will only cover you if we have charged you a fee for it.

Short phone calls or emails will usually be carried forward to your next tax return fee. More involved matters will be invoiced as we go.

Some clients have misunderstood how our fees work and assumed that their tax return fee covers all advice throughout the year. This would require us to increase our tax return fees significantly. It makes sense that those that need the advice pay for it, not everyone.

Please remember that advice from us will often save you lots of money and time, anguish in a Tax Office audit, provides for better structuring, and is often cheaper in the long run than getting the advice (too) late.

 Think hiring a good accountant is expensive? Try hiring a bad one.

***Our fees for 2020 Tax Season***

Our fees usually increase on 1st July each year. We know that many of you are doing it tough at the moment and we want to help where we can.

Accordingly, we have decided not to increase our hourly rates for the coming tax season.

Unfortunately, we still anticipate at least a 5% increase in your fees because there is much more information required to be entered into your returns and they will simply take longer for us to prepare. See elsewhere re granular data.

But our hourly charge rates will not be increasing.

***Gathering your information for your tax return***

Following the success of our Work Related Deductions Schedule (precipitated by Tax Office audit activity), and to help minimise office visits, we have developed a more in depth checklist to gather the important information we need to complete your tax return. We have included a copy with this newsletter. If can be downloaded from our website under ***Resources and Links*** and we will send it to you when you contact us to prepare your tax return. It is not designed to replace valuable conversations, but rather capture as much as possible and highlight when further discussions are needed.

At the same time that we send you the Checklist, we will upload your Prefilling Report from the Tax Office to the Client Portal for you to use in determining what additional information we need.

We cannot suppress the Tax File Number so will no longer be emailing this report. Please let us know if you prefer us to snail mail a copy to you.

***PAYG Instalments varied thanks to COVID***

The Tax Office permitted taxpayers to vary their PAYG Instalments for March and June.

This was intended to assist with cash flow during the pandemic during which many lost their jobs and many investments reduced their earnings.

This may still be applicable for the September quarter, but we need to wait and see how the Tax Office will manage this.

The result is that you will have less PAYG Instalments paid for the financial year. This may mean a larger tax liability than usual, but we won’t know until we work out your income. Please be warned about this likelihood and don’t leave it to the last minute to get your work in to us so we can prepare your return and subsequently prepare you for the result.

***Quote***

“If everyone is thinking alike, then somebody isn't thinking.”

General George S. Patton

***Would it save you money if we did your bookkeeping?***

During our recent Planning Week, we reviewed our processes and prepared for the new tax season.

One of the observations made by the team is how much anguish and money we could be saving you if we managed your bookkeeping.

Many clients who have already handed this over to us have expressed their relief at how much easier this is for them, and surprise that the cost was not as much as they thought – in some cases, they are saving money.

From our point of view, we can often save a lot of extra re-work and errors at BAS or Tax Time and this results in savings to you (in tax and our fees).

Other benefits include:

* Your work is also ready for completion at the end of the year much sooner.
* Better Tax planning can save you money and improve your business operations
* Your time is better utilised on things you are good at – or enjoy.
* The risk of penalties is minimised on audits, you avoid problems with paying super on time, GST errors, and many other issues.

We feel we are providing much better value for money this way too. Please get in touch with Kerri if you would like to discuss this.

***When you own a share in a property***

Until this year, it was ok for us to just include your share of any rental income and expenses.

From the 2020 tax return onwards, we now need to identify all owners, report 100% of the income and deductions and clearly show your % of this.

This may change how you provide your information to us.

***Charging “Mates Rates” for your rental property?***

Where you charge friends or family a lesser rental amount than you would to someone you do not know, i.e. it is less than the market rate, the Tax Office applies some strict rules that limits the amount of your deductions to the rental income that you received. In other words, no more negative gearing.

We can’t always tell what the market rate should be, so it’s up to you to tell us – or face pretty horrendous penalties.

***Granular Data***

***More info needed for your return***

Following what they considered as a successful trial last year with Granular Data for your work-related deductions, the Tax Office has extended the program to incorporate all income labels in your return.

This will mean we will need more information from you. As an example of what we now need to enter includes:

Interest income will need to disclose BSB and Account number, the number of owners of the account, the gross interest earned, and your share of that interest, and the country in which the account is held.

Managed Funds and Dividend income will require similar information but also your SRN or HIN. Whilst often found on your dividend slip, shares companies have begun to suppress this information for security purposes.

Overseas / Foreign Income will also require additional information to be recorded in your tax return.

We are waiting to see how much is provided by the Pre-Filling Report. We will be in touch for anyone where we need extra information.

This will definitely mean that many of you need to provide more details to us than you have had to in the past.

Please don’t shoot the messenger 😊

As an aside: where your dividend income (for example) comes from the Pre-Filling Report, we are anticipating that most of what we need comes from the report and we don’t need your dividend slips. However, we have always maintained that we prefer to receive your dividend slips as it provides a wealth of information that we will need especially when:

* you sell the shares,
* you participate in DRP (Dividend Reinvestment Plans),
* There are returns of capital, mergers or other corporate actions behind the scenes (the Tax Office does not give us information on this).

Accordingly, we are always pleased to receive your detailed information. Our records management system is secure and effective to facilitate the use of that data at a later date, when needed.

***Changes in Super Deduction age limits***

There was a point in time earlier this year due to the coronavirus pandemic, that the proposed changes from 1 July 2020 to increase the age limit to make contributions would not take effect as intended.

However, we have now seen the rules change to increase the age at which the work test starts to apply (for voluntary concessional and non-concessional superannuation contributions) from 65 to 67, and to increase the age limit for spouse contributions from 69 to 74.

***What about the bring forward rule?***

As part of these changes, it is proposed that these measures will also extend to the bring-forward rule, allowing for a person with a Total Super Balance (TSB) at the end of the prior year of:

* less than $1,500,000 to apply a 2 year bring forward amount ($200,000); or
* less than $1,400,000 to apply a 3 year bring forward amount ($300,000).

***UPDATE:  This Bill was not finalised in Parliament before 30 June 2020 and currently remains outstanding.  Therefore, the bring-forward rule does not currently apply for a 65 & 66 year from 1 July 2020 at this time.***

***Need to hire a training room?***

Keep us in mind for your own function or someone you know. We have projectors, white boards, and our fee includes unlimited tea and coffee.

We are really aiming to help small businesses wanting to hold events but afraid of the non-refundable deposits required by other venues.

Last minute bookings are our specialty and our prices are very attractive.

Feel free to mention us to your friends. More details can be found on our website.

It has also been suggested that our training room is well suited for mediation. We have two break-out offices that can be used for private discussions during a mediation centre. If you know of anyone that might have use, especially with so many other venues still closed, please let them know about us.

***Car Logbooks***

ATO has warned they are looking for more prescriptive descriptions for the purpose of your trip compared to what they are finding in their audits.

# The ATO on COVID-19 fraud warpath

We always knew that a Government scheme swiftly distributing cash during a crisis was going to come with equally swift compliance and review measures, particularly when eligibility was self-assessed. Two major Australian Taxation Office (ATO) initiatives are searching out fraud and schemes designed to take advantage of the Government’s Coronavirus Economic Response Package.

For the early release of superannuation measure, behaviours attracting ATO attention include:

* Applying when there is no change to your regular salary, wage, or employment information
* Artificially arranging your affairs to meet the eligibility criteria
* Making false statements or fraudulent attempts to meet the eligibility criteria
* Withdrawing and re-contributing super for a tax advantage – this could not only trigger anti-avoidance rules but also result in additional taxes and impact your eligibility for a super co-contribution.

Where individuals have not met the early access measure’s hardship eligibility criteria, the ATO has stated that fines of up to $12,000 will apply for each false and misleading statement made. In addition, where a scheme has been entered into to obtain a tax benefit, such as claiming a tax deduction for recontributing super withdrawn under the early release measures, Part IVA may apply. That is, the ATO is actively looking for individuals who have utilised the early release measures when they didn’t need it, then recontributing all or part of the super for the purpose of claiming a tax deduction.

For the Cash Flow Boost, the ATO is looking for schemes designed to:

* Artificially restructure businesses to gain access to the cash flow boost
* Artificially changing the character of payments to salary or wages to maximise the cash flow boost
* Inflating reported withholding amounts to maximise the cash flow boost
* Resurrecting dormant entities or phoenixing
* Making false statements or fraudulent attempts to create an entitlement.

Genuinely made a mistake? The ATO has stated that if you work with them, and the mistake is genuine, they will give you the support you need, without the worry of accruing a debt, repaying money or getting penalised.

***JobKeeper and termination payments (breakout box)***

An employment termination payments (ETP) is a lump sum payment made to an employee when their job is terminated. ETP’s are generally made up of unused sick leave or unused rostered days off, payment in lieu of leave, genuine redundancy payments, etc.

For some employers, JobKeeper will not be enough to keep the employee employed. If you do need to let staff go, the ATO has stated that from JobKeeper fortnights from 8 June onwards until the end of the scheme, ETPs cannot be included as part of the $1,500 an employer needs to pay to eligible employees to access JobKeeper payments.

If any JobKeeper payments include an ETP to a terminated employee between 30 March to 7 June, the ATO has stated that it will not recover an overpayment.

***3 million individuals in data matching program***

In a massive data matching program, the ATO and Services Australia will share the records of approximately 3 million individuals to ensure that those accessing benefits are eligible to receive them.

For those who access their superannuation early under the COVID-19 measures, Services Australia will verify their eligibility where they have indicated that they are eligible for the JobSeeker payment, parenting payment, special benefit, youth allowance or the farm household allowance.

The program will review the records of those applying for early access between 19 April 2020 to 24 September 2020.

The records of 45,000 prisoners in state and territory correctional facilities are also being compared against applications for JobKeeper, temporary early access to superannuation, and the eligibility criteria for cash flow boost to confirm appropriate access. The records gathered will cover the period from 1 March 2020 to 27 September 2020.

***Quote***

“You can’t change conditions. Just the way you deal with them.”

Jessica Watson, OAM is the youngest person to sail solo and unassisted around the world.

***Short and sweet***

Cents per KM rate increase

Cents per km rate for work-related car expenses increases to 72 cents from 1st July 2020.

CGT and the family home: expats and foreigners excluded from tax exemption

Late last year, legislative changes were made that exclude non-residents from accessing the main residence exemption. The retrospective changes directly impact foreigners and expats whose main residence is in Australia or overseas.

***ATO targets ‘lifestyle’ assets***

The ATO has requested insurance policy information from 30 insurers for lifestyle assets such as yachts, thoroughbred horses, and fine arts.

The review, expected to impact 350,000 taxpayers, reaches from the 2015-16 to 2019-20 financial years, revealing assets that previously may not have been disclosed or underreporting of income. “If a taxpayer is reporting a taxable income of $70,000 to us but we know they own a three-million-dollar yacht then this is likely to raise some red flags,” Deputy Commissioner Deborah Jenkins said.

The ATO is looking for:

* under-reporting of income and mismatches between lifestyle assets and reported income,
* the purchase of assets in a company name but where those assets are used for private purposes (incorrect claims or non-reporting of GST credits, FBT, Division 7A, capital gains tax), and
* lifestyle assets purchased by self-managed superannuation funds that might breach the sole purpose test.

The ATO has stated that the data matching will not result in automatic audits but will be reviewed by compliance officers to support the profiling of selected taxpayers.

**Annual Reminders Things we don’t want you to forget**

\* **Spouse’s Income;** you are required to include your spouse’s income in your return. If your spouse is not a client of KDC Accounting, please contact our office and our friendly team will send you a questionnaire to complete prior to you bringing your work in.

\* Anyone wanting to make **a claim for motor vehicle expenses**; you need to record your odometer readings as at 30th June each year. Failure to do this could mean that you are not able to claim your motor vehicle expenses. This is relevant for those in business and those who are employees. You also need a Usage Diary. We need to see it this year in order to include your claim.

\* Don’t Ignore **PAYG Income Tax Instalment Notices**.

Many Clients get them and ignore because their business ceased, investment income decreased, they sold their rental property etc., - but ATO doesn’t know your changed circumstances so still expect payment. Ignoring it will establish a debt and incur fines; we can’t reduce this estimate after the due date so the ATO will charge interest until paid.

Sometimes you will get a notice for $0. This is because you varied the instalment down in a previous period. The Australian Taxation Office is sending the $0 instalment in case you need to vary your instalment up. Failure to increase an instalment when your circumstances change, or you miscalculated in the earlier period, may result in fines from the Australian Taxation Office.

\* **Family Trust Distributions**; Be sure to record your Family Trust Distribution intentions for the 2020 financial year via a minute of meeting of trustees before 30th June 2020. Please send us a copy of your distribution minute.

\* **Family Assistance claims**; for the last financial year will only be assessed if the Income Tax Return is lodged before 30th June of the following year. Don’t miss out on your entitlement because you didn’t get your Income Tax Return done on time.

# Zone Tax Offsets: Zone offsets are available to those taxpayers who are genuinely living in a zoned (or remote) area. It is no longer available to fly-in-fly-out (FIFO) or drive-in-drive-out (DIDO) workers. Please tell us if you lived in a zoned area during the financial year.

# \* MyGov accounts: Your Notice of Assessment (NOA) and other correspondence are sent directly to your MyGov account where linked to the ATO. We can gain access, but only if we know to look. Don’t miss paying your tax debt or PAYG Instalment (or other ATO debts) because you didn’t see your MyGov notification.

# \* Not sure if Kerri got your email? Instead of sending it to Kerri, feel free to send it to admin@KDCaccounting.com.au and the Client Support Team will follow her up for you.

\* Sending us your Tax or other work? We prefer you send all of this work to the same email address (above). It ensures that your work is recorded as having been received and is logged into our job management system.

# \* Upcoming Events; Our new premises have a dedicated training space. We intend to hold a lot more events using this space for businesses AND for those not in business. Please keep an eye on our website or Facebook page.

# <https://kdcaccounting.com.au/events/>

# [www.facebook.com/KDCAccounting](http://www.facebook.com/KDCAccounting)

# \* Motor Vehicle Logbooks – let us take a copy; The ATO is cracking down and acting harshly and swiftly towards those clients who have ‘lost’ their logbooks. If we cannot provide a copy of a logbook which meets the requirements for substantiation, then you will fail an audit.  The ATO are even looking at toll records to verify if you were where you said you were. Bring your logbook to your interview and we will take a copy for you. Or take a photo with your phone and email it to us.

\* **PAYG Variations**; Your variation for the 2020 financial year will run out on 30th June. Please get in touch if you would like our assistance in preparing a new variation.

**\* Travel to inspect your rental property** is no longer deductible EVER following the 2017 Budget announcement.