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TAX TIME - 2021

Client Newsletter

A newsletter for all of our clients

Happy New Year

Welcome to the 2022 Financial Year!

The 2021 year has continued to bring new challenges and COVID-19 is not going away anytime soon.

We continue to adapt our services and delivery to meet your needs. We will be offering appointments for your tax returns via phone, Zoom, and in-person.

We were also surprised by how many of you opted for no appointment at all. And it doesn't seem to have caused any real issues. In fact, we often find we are achieving better outcomes when we receive your information, begin processing your return, and then have a catch up – it's not always obvious during the interview what our questions might be.

We have enclosed our questionnaire that we implemented last year. The feedback has been fantastic – thank you. Please note: It is not compulsory to use it – but it's a great resource for you to refer to when preparing your information for us.

Client Portal FAQs

I uploaded my documents to the Client Portal but they aren't there now. What happened?

Once you upload your documents to the Client Portal, we receive an email to tell us this. We will then remove the documents to our Tax Software. The client portal has no filing structure and leaving your data there will make it very confusing next year, and the year after that. It's not lost. We have saved it for you.

Where is my invoice?

We collate the invoice with your tax return – just in front of the return. When you sign via the client portal, you must first download the document pack to your device (a computer is easier but it can be on your phone), review the contents, and then authorise signing.

How do I find my return once I have downloaded it from the client portal?

You need to take note of where your device is saving it for you. On most PCs it will be in your "downloads" folder.

How much is my refund?

Again, you must download the PDF document and the estimate will be either the 2nd or 3rd last page of the PDF document.

How do I pay my tax debt?

Tax debts arising from your tax return have statutory due dates. The ATO will issue a Notice of Assessment (NOA) to your home address or your MyGov account. It will include all the details of when and how to pay your debt.

Didn't get your NOA? Contact the office and we can follow it up for you and upload it to the Client Portal.

I've lost my email – how do I get back into the client portal?

You can use the link in another email.

You can go to our website and follow the links to the client portal.

I've forgotten my password – can you give it to me?

For security reasons, we do not know your password. We can help you reset the password which will send a link to your nominated email address. You can use the "forgot password" functionality as well.

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.

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.

Appointments in a COVID world

We continue to hold In Person Appointments but also Phone and Zoom Appointments. The choice is yours.

What we have found from being more electronic is that the initial meeting is not always necessary and we often find a catch up after commencing your work is more efficient, for you and us. We will continue to leave it to you to decide on your own preference.

Expected Turnaround Times

Just like every other accountant, we have struggled to get through the 2020 tax returns. We still have quite a few to do. The team worked really hard and met the 30th June deadline for every single client receiving Centrelink and a few other specific deadlines.

We will continue to work on these in conjunction with the 2021 tax returns. The ATO is working with us and continuing to provide extensions as long as we are making progress with the 2020 tax returns.

They may impose a penalty – if they do, please let us know. This is because they grant the extension to the practice, not to each individual taxpayer's record. We expect to get all penalties remitted.

It helps us with turnaround times if you refer back to last year's tax return for what we needed, get your information to us in a timely manner, and promptly reply when we have questions. In fairness to everyone, we will work on your return in the order that it is received and it is a little bit out of our control as to how many people will come in before you.

If you have a deadline other than the ATO, please let us know and we will work with you on this. Thanks again for your patience during this time.

Quote

"Survival is not about being fearless. It's about making a decision, getting on and doing it."

"Bear" Grylls

Claiming your Working from Home

The COVID Home Office Higher Rate is still available this year.

Please provide the number of hours that you worked from home and we can apply the ATO rate. When you use the higher rate, the ATO precludes you from claiming other home office costs like stationery, phone, and internet. If you provide these details, we will assess whether the higher rate without these deductions is better or whether you benefit from the lower rate with these deductions.

Thinking of claiming internet? We recommend the ATO Max cap of $50 without a detailed usage diary. A recent case showed how the ATO was able to access the records of a taxpayer's Internet Service Provider and list the websites that they visited and reduced their claim to $50. We seriously don't think it is possible to keep an appropriately detailed diary of internet usage to be able to claim more than $50.

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.

Our fees for the 2021 Tax Season

Our fees usually increase on 1st July each year. We didn't increase our rates last year to support those of you doing it tough. Overall, fees did increase slightly, but this was a result of more work required to do the same tax returns – the ATO increases the reporting obligations each year. This year is no exception.

This year, we have increased our rates and also anticipate increases because of the additional processes required by the ATO. You can see our hourly rates at

https://www.kdcaccounting.com.au/fees/

Generally, the rate has increased by $11 / hour ($10 + GST). Kerri's has increased by $22 / Hour.

We expect between 7.5-10% increase in our fees this year.

Car Logbooks

Don't forget to record your odometer reading at 30th June – regardless of what method of claiming your car. ATO is continuing to look for more prescriptive descriptions for the purpose of your

trip compared to what they are finding in their audits.
They are also expecting a general decline in car expenses as more people worked from home. We know there will be exceptions to this – but you will need to justify this.

COVID-19 disaster payment

The COVID-19 disaster payment is available to eligible workers who can't attend work or who have lost income because of a lockdown and don't have access to appropriate paid leave entitlements. And, it only applies from the eighth day of lockdown. That is, there is nothing you can claim for the first week of a lockdown.
The payment amount depends on how many hours of work you have lost in the lockdown period (week).

Hours lost	Amount
<20 hours	$325
20+ hours	$500

Applications for the disaster payment need to be made weekly.
The payment is available if you are not earning an income or have lost work and you:

- Are an Australian citizen, permanent resident or temporary visa holder who has the right to work in Australia, and
- Are aged 17 years or over, and
- Can't attend work and lost income on or after day 8 of a COVID-19 lockdown, and
- Don't have access to appropriate paid leave entitlements through your employer (other than annual leave), and
- Are not getting an income support payment, a state or territory pandemic payment, Pandemic Leave Disaster Payment or state small business payment for the same period.

Until recently, a liquid assets test applied that meant that if you had more than $10,000, you could not receive the payment. However, the Prime Minster has stated that this test will be lifted from Thursday, 8 July 2021.
During Victoria's lockdown, 75,410 claims were made for the disaster payment, 57,730 were granted. In NSW, over 67,000 residents have applied for the payment to date.
The disaster payment is only accessible if the hotspot triggering the lockdown lasts more than 7 days as declared by the Chief Medical Officer.

Pandemic Leave Disaster Payment

The Pandemic Leave Disaster Payment of $1,500 for each 14 day period is for those who have been advised by the health authorities to self-isolate or quarantine because:

- You have coronavirus (COVID-19)
- You've been in close contact with a person who has COVID-19
- You care for a child, 16 years or under, who has COVID-19
- You care for a child, 16 years or under, who's been in close contact with a person who has COVID-19.

The payment might also be accessible if you are a carer for someone impacted.
Eligibility for this disaster payment is very similar except that you need to use any appropriate leave entitlements if it is available to you (for example, pandemic sick leave, personal leave, or carer leave).

6 Member SMSFs

From 1 July 2021, the maximum number of members a Self Managed Super Fund can have increased from four to six. Why would you have a fund with six members and what are the implications?
Recently enacted laws increased the maximum number of allowable members in an SMSF and small APRA fund from four to six.
Currently, over 70% of SMSFs have just two members and those with four members represent only 4% of the SMSF population. The use of six member funds is likely to be small but adds additional choice and flexibility.
There are a number of benefits and additional administrative impacts. Please get in touch if you would like to know more.

New laws target sharing economy platforms

In an attempt to reign in undeclared income, proposed new laws will require platform providers in the sharing economy to report all transactions through their platforms.
Traditional employment models have shifted in favour of more flexible options including contracting, self-employment and use of labour hire. Consumers are increasingly paying to 'use'

rather than 'own' assets, creating new income opportunities for the owners of assets – like AirBNB. The Government believes they are missing out on tax revenues from these payments – income tax from income earned, GST on ride sharing (because the ATO considers all ride sharing a taxi service and as a result GST applies), and capital gains tax on the sale of property used to earn income, etc.

The laws target electronic platforms capturing those that act as intermediaries between buyers and sellers, to more complex arrangements where the platform operator assumes much of the inherent risk in the transaction between the buyer and the seller, play a quality assurance role, and ensure a seamless experience for the buyer and seller. The laws do not rely on the platform processing payments and will reach to those who use third party payment providers.

While data matching programs have targeted sharing platforms previously, the proposed laws provide a structured and consistent framework to recognise all revenue earned in Australia through these platforms.

If implemented, the laws will apply to ride sharing and accommodation services from 1 July 2022, and all other services from 1 July 2023.

Indexation increases contribution caps and the transfer balance cap

Indexation ensures that the caps on superannuation that limit how much you can transfer into super and how much you hold in a tax-free retirement account, remain relevant by making pre-determined increases in line with inflation. To trigger indexation, the consumer price index (CPI) needed to reach 116.9. Australia reached 117.2 in December 2020 triggering increases to the contribution and transfer balance caps from 1 July 2021. The next increase will occur when a December quarter CPI reaches 123.75.

Concessional and non-concessional contribution caps

From 1 July 2021, the superannuation contribution caps will increase enabling you to contribute more to your superannuation fund (assuming you have not already reached your transfer balance cap).

The concessional contribution cap will increase from $25,000 to $27,500. Concessional contributions are contributions made into your super fund before tax such as superannuation guarantee or salary packaging.

The non-concessional cap will increase from $100,000 to $110,000. Non-concessional contributions are after tax contributions made into your super fund.

The bring forward rule enables those under the age of 65 to contribute three years' worth of non-concessional contributions to your super in one year. From 1 July 2021, you will be able to contribute up to $330,000 in one year. Total superannuation balance rules will continue to apply. However, if you have utilised the bring forward rule in 2018-19 or 2019-20, then your contribution cap will not increase until the three year period has passed.

1 July 2017 – 30 June 2021	
Total Superannuation Balance (TSB)	**Contribution and bring forward available**
Less than $1.4m	$300,000
$1.4M -$1.5m	$200,000
$1.5M - $1.6m	$100,000
Above $1.6m	Nil
After 1 July 2021	
Total Superannuation Balance (TSB)	**Contribution and bring forward available**
Less than $1.48m	$330,000
$1.48M - $1.59m	$220,000
$1.59M - $1.7m	$110,000
Above $1.7m	Nil

Transfer balance cap – why you will have a personal cap

The transfer balance cap (TBC), as the name suggests, limits how much money you can transfer into a tax-free retirement account. From 1 July 2021, the general TBC will increase from $1.6m to

$1.7m but not everyone will benefit from the increase.

From 1 July 2021, there will not be a single cap that applies to everyone. Instead, every individual will have their own personal TBC of between $1.6 and $1.7 million, depending on their circumstances.

If your superannuation is in accumulation phase before 1 July 2021, that is, you have not started taking an income stream (pension), then your cap will be the fully indexed amount of $1.7m.

However, if you have started taking an income stream - you have retired or are transitioning to retirement - then your indexed TBC will be calculated proportionately based on the highest ever balance of your account between 1 July 2017 and 30 June 2021. The closer your account is to the $1.6m cap, the less impact indexation will have. For anyone who reached the $1.6m cap at any time between 1 July 2017 and 30 June 2021, indexation will not apply and your cap will continue to be $1.6m. For example, if you are transitioning to retirement and drawing a pension, and your highest ever balance in your retirement account was $1.2m, then indexation only applies to $400,000 (the $1.6m cap less your highest very balance). In this case, your new personal TBC will be $1,625,000 after indexation.

My super is…	TBC to 30 June 2021
In accumulation phase	$1.6m
In retirement phase and I reached the $1.6m cap limit between 1 July 2017 and 30 June 2021	$1.6m
In retirement phase and I have never reached the $1.6m cap limit at any time between 1 July 2017 and 30 June 2021	$1.6m
My super is…	**TBC from 1 July 2021**
In accumulation phase	$1.7m
In retirement phase and I reached the $1.6m cap limit between 1 July 2017 and 30 June 2021	$1.6m
In retirement phase and I have never reached the $1.6m cap limit at any time between 1 July 2017 and 30 June 2021	$1.6m plus indexation on the amount between your highest ever balance and the $1.6m cap.

The Australian Taxation Office (ATO) will calculate your personal TBC based on the information lodged with them (this will be available from your myGov account linked to the ATO). If your superannuation is in retirement phase, it will be very important to ensure that your Transfer Balance Account compliance obligations are up to date. For Self-Managed Superannuation Funds (SMSFs), it is essential that you let us know about any changes that impact on your transfer balance account, for example if a member of your fund retires.

The total super balance caps to utilise the spouse contribution offset and the government co-contribution will also be lifted to $1.7m in line with indexation.

Am I taxed on an insurance payout?

Australia has had its fair share of disasters over the last few years – drought, bushfires and floods – that have ramped up the volume of insurance claims. Most people would assume that if and when they need to claim on their insurance, the insurance payout covers the damage and is not income assessed for tax purposes - but this is not always the case.

Insurance payouts for damaged or destroyed personal items are generally not taxed. For example, any insurance payout you receive for your family home won't necessarily be taxed. But, the rules are different if you have used your home to produce an income, for example, you have used part of your home as a home business or you have rented out part of your home.

The rules are also different if the item is a personal asset costing more than $10,000 or if the asset is a collectible that cost more than $500. Where the insurance proceeds exceed the original cost of the asset, that is, the asset appreciated in value, then capital gains tax might apply.

And, if the asset damaged is related to a business or an income producing asset like a rental property, the rules are also different.

Business premises, trading stock and depreciating assets

For businesses that have had trading stock damaged or destroyed, any insurance payout is taxable. For example, the payouts on claims coming through from the enforced lockdowns for spoiled perishable stock would need to be included in the business's tax return. This is because the insurance premiums would have been claimed by the business as an expense. It is just a question of how the insurance is taxed.

If your business premises are damaged and the insurance covers repairs, then the amount you receive is generally taxed as income if you can claim a deduction for the repair costs. Where the premises are damaged or destroyed, then we'll need to work with you to identify if you have made a taxable gain or loss.

When it comes to depreciating assets like machinery, then it starts getting more complex. In general, if the insurance payout exceeds the written down value, then the payout is included in the business's assessable income, and if less, you can claim a deduction for the difference. However, there are also special rules for work cars, small businesses, and where a replacement item is purchased.

Rental properties

A rental property is an income producing asset and, in most cases, the cost of insurance policies relating to the property would have been claimed as an expense. For example, if you receive a payout for your rental property as a result of a disaster, generally, you will need to include at least part of this amount as income in your tax return. This could include insurance payouts for loss of rental income, repairs, replacements of destroyed assets, or money received from a relief fund.

The treatment of the insurance proceeds depends on what the payout is for, how the insurance is used, and whether the rental property was vacant or in use.

A recent case before the Administrative Appeals Tribunal (AAT) shows how tricky this area of the tax rules can be. In this case, the taxpayer initially received insurance proceeds of $24,000 for lost rental income after their property sustained storm and flood damage. The taxpayer had declared this amount as income. All good so far.

Then, the taxpayer received an additional $250,000 from the insurer with the payment described as "in consideration of the taxpayer releasing the insurer from all liability past, present and future under the insurance policy". The taxpayer did not believe this money was for him to repair his property so did not claim it in his tax return. But, he did claim a deduction for repair costs totalling $130,000 in two income years.

The ATO subsequently audited the taxpayer and issued an assessment for the full $250,000. The AAT agreed with the ATO even though the taxpayer had only claimed $130,000 in repairs. It's possible this case will go to appeal but it serves as a warning that any lump sum payouts need to be very carefully assessed and dealt with.

If you have been impacted by a disaster and are uncertain of how any insurance proceeds will be taxed, please talk to us and we can work with you to help you understand your position.

JobMaker fails to boost employment

The Government's JobMaker scheme has created 609 new jobs since registrations opened on 1 February 2021, despite around 15,000 businesses registering their interest in the scheme.

The hiring credit is available for jobs created from 7 October 2020 until 6 October 2021 and provides $200 per week for new employees between 16 to 29 years of age, and $100 a week for new employees between 30 to 35 years of age. Payment is from the start date of the employee for 12 months. To date, around 70% of employers taking advantage of the credit are micro-employers with another 20% from the SME sector.

Unlike JobKeeper, the employer keeps the JobMaker payment and does not pass it onto their employee.

One of the reasons for the low take up rate, beyond a general lack of awareness in the business community, is likely to be the complexity of the scheme versus the reward. There are a number of tests and compliance requirements at both the employer and employee level including an 'additionality test' that requires the total headcount of the business to remain above a baseline number of employees. That is, if you employ an eligible employee and an existing employee resigns, the benefit cancels out because there is no longer an increase in total headcount.

In addition, JobMaker only applies where an employer takes an employee from the unemployment queue. That is, the employee had to be receiving the JobSeeker Payment, Youth Allowance or Parenting Payment for at least one month within the three months before they were hired.

It is possible that more businesses will start to take advantage of the scheme now that the JobKeeper scheme has finished. Businesses that were still eligible for JobKeeper could not generally access JobMaker at the same time.

The Treasurer has stated that the Government will review the design of the JobMaker program in the upcoming Federal Budget with only $800,000 of the $4 billion scheme's budget distributed.

Australia's unemployment rate decreased to 5.8% in February 2021 (0.8% higher than 12 months ago) with just under 70,000 jobs created in the month. Underemployment has risen to 8.5%.

National licence recognition for tradies

Builders, electricians, plumbers, architects, real estate agents, security guards and other workers who hold an occupational licence in their home state or territory and who want to do the same work in another state or territory will soon be automatically deemed to have the necessary licence.

The Federal, State and Territory Governments have agreed to a mutual recognition regime that will be implemented by the Federal Government. Exposure draft legislation enabling the seamless mutual recognition scheme was released last month with the scheme expected to start from 1 July 2021.

Workers will not need to pay additional licence fees or apply for additional licences.

Workers working in another state or territory will need to comply with local laws and regulations (including vulnerable people character test) and in some cases will need to notify the regulator they intend to work in their State. The States have the capacity to refuse a registration or type of license from mutual recognition.

Those subject to disciplinary action or who have conditions on their registration as a result of disciplinary, civil or criminal action will be excluded from automatic mutual recognition. Information on cancelled or suspended registrations and disciplinary proceedings and to record cancellations and suspensions on registers, will be shared.

Quote

"Do your best with what you know; when you know better, do better."

Maya Angelou

What would be your fantasy job if not working here at KDC

Insights from the Team

Jordan: Soccer analyst

Anwaar: Michelin Star Chef

Ryan: Commercial Pilot

Garry: Hollywood Actor

Cheryl: Beach Combing Hippie

Vanessa: Travel (BLOG) Writer

Tracy: Restaurant Owner

Del: Restaurant Food Critic

Dion: Fighter Jet Pilot

Leni: Grey Nomad

Sharan: Maths Teacher

Mal: Nerf Gun Quality Control Inspector

Kerri: Hogwarts Professor - Defence Against the Dark Arts (of course!)

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

* **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.