



Individual

END OF FINANCIAL YEAR 2019 - 2020 GUIDANCE



June 2020

Contents

About this guide	1
What's new?	2
Federal Budget delay	2
Covid-19: working from home	2
Car expenses	2
Foreign income	3
Study or training loans	3
Property	4
Superannuation	7
End of year compliance checklist	8
About Propeller Advisory	10

Disclaimer

The EOFY Guide contained herein is provided on the understanding that it neither represents nor is intended to be advice or that the authors or distributor is engaged in rendering legal or professional advice. Whilst every care has been taken in its preparation no person should act specifically on the basis of the material contained herein. If assistance is required, professional advice should be obtained.

The material contained in the EOFY Guide should be used as a guide in conjunction with professional expertise and judgement. All responsibility for applications of the EOFY Guide and for the direct or indirect consequences of decisions based on the EOFY Guide rests with the user.

Knowledge Shop Pty Ltd, Propeller Advisory, directors and authors or any other person involved in the preparation and distribution of this guide, expressly disclaim all and any contractual, tortious or other form of liability to any person in respect of the EOFY Guide and any consequences arising from its use by any person in reliance upon the whole or any part of the contents of this guide.

Copyright © Knowledge Shop Pty Ltd, Propeller Advisory

Propeller guidance

Congratulations! You made it through the 2019-20 financial year!

We know how difficult the first half of 2020 has been for the businesses and individuals we work with. The fires, followed by Covid-19, have negatively impacted many of you.

This year, more than ever, the Propeller team wants to ensure that we help you reduce your tax exposure and minimise the risk of an audit by the regulators. This booklet contains lots of information to help you do just that.

For a checklist of everything you need to prepare in advance of seeing us next, please turn to the last pages.

If you have any questions in the meantime, or if you would like us to review your situation, please reach out and let us know.

Kind regards,
The Propeller Team.



What's new?

The latest policies and decisions you need to stay on top of.

2020-21 Federal Budget delayed

The release of the 2020-21 Federal Budget has been postponed from its traditional date in May until 6 October 2020. We expect there will be a number of reforms and measures to tighten spending and recover revenue, and a range of productivity measures.

We will keep you advised of significant changes that might impact you.

Have you been working from home during Covid-19?

From 1 March 2020 until at least 30 June 2020, special arrangements are in place to make it easier for individuals to claim expenses they have incurred while working from home during the COVID-19 pandemic.

If you have incurred work-related expenses and you have not been reimbursed by your employer, you can claim these expenses at a rate of 80 cents for each hour you work. To use this method, you will need a record of the hours you have worked, such as a diary or timesheet.

The claim covers all of your additional running expenses such as:

- Electricity and gas
- Decline in value and repair of capital items such as office furniture
- Cleaning expenses
- Phone and internet expenses
- Stationery
- Decline in value of computers and devices

EXAMPLE

If you worked from home for 7 hours a day on the weekdays between 1 March and 30 June 2020, that's 83 working days (in VIC) or 581 hours. Using the 80 cents COVID-hourly rate, you could claim \$464.80. The rate covers all of your expenses and you cannot claim individual items separately, such as office furniture or a computer.

State-based rates

- NSW, QLD – 84 days, 588 hours = \$470.40
- SA, NT & VIC – 83 days, 581 hours = \$464.80
- ACT, TAS, WA – 82 days, 574 hours = \$459.20

The COVID-hourly rate can be claimed per

individual (it is not limited by household). That is, if you have multiple people working from home in your household, each person can claim the 80 cents per hour rate for the hours they have worked from home

Using the COVID-hourly rate is optional and aimed at people who do not normally work from home. For some, their expenses will be higher, such as those with a dedicated home office, or for those that normally operate their business from home. In these circumstances the normal rules will apply.

The ATO appears to be taking the view that occupancy costs such as mortgage interest payments and rent cannot generally be claimed by those who are temporarily working from home as a result of COVID-19.

Are you a home-based business?

In general, if your business is a home-based business, you should be able to claim both occupancy and running expenses. However, if you operate through a company or trust, the ATO's preference is that there should be a rental agreement in place between the entity and the property owner.

If there is a genuine rental contract, then the property owner should recognise the rental income and should then seek to claim a reasonable portion of their expenses against the rental income. The business entity should generally be able to claim a deduction for the rent that is being paid to the owner of the property.

Without a genuine rental contract, it is difficult for the business to claim a deduction for any of the expenses relating to the portion of the property that it uses in the business.

Have you incurred work-related car expenses?

The rate at which work-related car expenses can be claimed using the cents per kilometre method will increase from 1 July 2020 from 68 cents to 72 cents per kilometre.

Using this method a maximum of 5,000 business kilometres can be claimed per year per car.

Do you receive foreign income?

The ATO has flagged foreign income as an area of interest. Because your tax residency can be different to your general residency status, it's important to seek clarification if you are uncertain. For tax purposes:

Using the COVID-hourly rate is optional and aimed at people who do not normally work from home. For some, their expenses will be higher, such as those with a dedicated home office, or for those that normally operate their business from home. In these circumstances the normal rules will apply.

The ATO appears to be taking the view that occupancy costs such as mortgage interest payments and rent cannot generally be claimed by those who are temporarily working from home as a result of COVID-19.

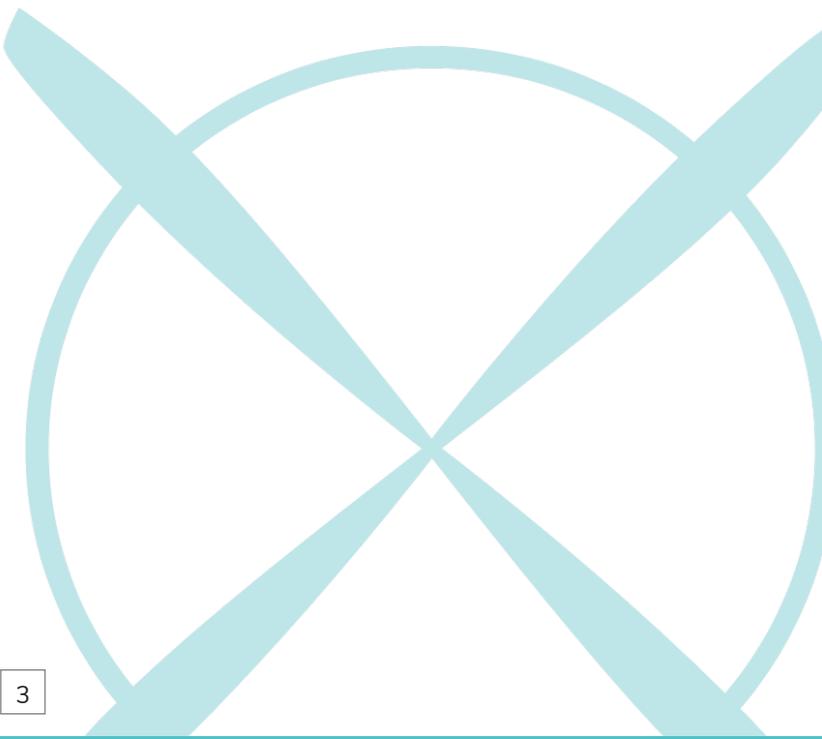
Just because you work outside of Australia for a period of time does not mean you are not a resident for tax purposes during that period. And, for those with international investments, it's important to understand the tax status of earnings from those assets. Just because the asset might be located overseas does not mean they are excluded from Australian tax law, even if the cash stays outside Australia. Don't assume that just because your foreign income has already been taxed overseas or qualifies for an exemption overseas that it is not taxable in Australia.

Australian resident	Taxed on worldwide income including money earned overseas (such as employment income, directors' fees, consulting fees, income from investments, rental income, and gains from the sale of assets).
Foreign resident	Taxed on Australian sourced income and some capital gains. Unlike Australian resident taxpayers, non-resident taxpayers pay tax on every dollar of taxable income earned in Australia starting at 32.5% although lower rates can apply to some investment income like interest and dividends. There is no tax-free threshold. Australian sourced income might include Australian rental income and income for work performed in Australia.
Temporary resident	Generally, those who have come to work in Australia on a temporary visa and whose spouse is not a permanent resident or citizen of Australia. Temporary residents are taxed on Australian sourced income but most forms of foreign sourced income are not taxed in Australia. In addition, gains from non-Australian property are excluded from capital gains tax.

Do you have a study or training loan?

If you have study and training loans (HELP, VSL, SFSS, SSL, ABSTUDY SSL and TSL), the 2020-21 compulsory repayment threshold is \$46,620.

The repayment threshold is made up of your taxable income plus any total net investment loss (including rental income losses), fringe benefits, super contributions and exempt foreign employment income.



PROPERTY

Are you a foreign residential property owner?

Legislative changes made earlier this year prevent foreign residents from accessing a capital gains tax (CGT) exemption on their Australian family home (the main residence exemption).

A transitional rule enables foreign residents who have held their property continuously from 9 May 2017 to access the exemption if they sell by 30 June 2020 (or sign a sale contract).

After 30 June 2020, if you are a non-resident for tax purposes at the time you sell your main residence, you will no longer be able to access the main residence exemption and you will need to pay CGT on any gain you make. These new rules apply regardless of whether you were an Australian resident for part of the time you owned the property and no apportionment applies - the exemption simply does or does not apply depending on your residency status for tax purposes at the time the CGT event is triggered. The CGT event is generally triggered when the contract of sale is signed.

Were you a resident at the time of the CGT event?

However, if you are a resident of Australia at the time of the CGT event, then you may be able to access the main residence exemption, even if you have been a non-resident for some or most of the ownership period. For example, an expat who maintains their main residence in Australia could return to Australia, become a resident for tax purposes again, then sell the property and if applicable, access the main residence exemption (the rules contain provisions that will deny the exemption where someone attempts to avoid the new rules by deliberately structuring their affairs to access the exemption – for example, transferring the property to a related party).

An exclusion also applies where the individual has been a foreign resident for six years or less and a 'life event' occurs such as death or a terminal illness.

Do you own vacant land?

In the past, if you bought vacant land with the intent to build a rental property on it, you may have been able to claim tax deductions for expenses incurred in holding the land such as loan interest, council rates and other ongoing holding costs. For some taxpayers, those deductions are no longer available.

From 1 July 2019, new rules were introduced preventing 'mum and dad developers' (individuals, closely held trusts, SMSFs and unit trusts or partnerships where any interests are held by individuals, discretionary trusts or SMSFs) from claiming a deduction for interest and other holding costs for property that they own. Since the new laws apply retrospectively to losses or outgoings incurred on or after 1 July 2019, regardless of whether the land was first held prior to this date, and with no grandfathering in place, the amendments not only impact those intending to develop vacant land but those who have acquired land to develop.

The rules aim to ensure that deductions cannot be claimed during periods where a residential dwelling is being constructed or substantially renovated until the work has been completed, an occupancy certificate is issued and the property is either rented out or genuinely available for rent.

Where holding costs cannot be claimed as a deduction, they will generally be added to the cost base of the property for capital gains tax (CGT) purposes. This means that they can potentially reduce a capital gain made when you dispose of the property in the future. However, holding costs cannot be added to the cost base of a property unless it was acquired after 20 August 1991 and these costs cannot increase or create a capital loss on sale of a property.

Do you own and rent out commercial or residential premises?

If COVID-19 has impacted commercial or residential premises you own and rent out, from a tax perspective very little has changed.

- If tenants remain in the property or the property remains genuinely available for rent, you can continue to claim expenses as usual, even if the rental rate has been reduced on a temporary basis or tenants have been unable to pay rent for a period of time.
- If you negotiated with your bank to defer mortgage repayments, you can continue to claim interest as the deferred interest is capitalised.
- If you received an insurance payment for rent defaults, or your tenant made a back payment of rent they owe, this income is taxable and will need to be declared in your tax return.

Is your rental property outside Australia?

If your rental property is outside of Australia, and you are an Australian resident for tax purposes, you must recognise the rental income you received in your tax return (excluding any tax you have paid overseas), unless you are classified as a temporary resident for tax purposes. You can claim expenses related to the property, although there are some special rules that need to be considered when it comes to interest deductions. For example, if you have borrowed money from an overseas lender you might be subject to withholding tax obligations.

Are your deductions and interest claims accurate?

Outside of COVID-19 related issues, the ATO continues to find errors in rental property claims made, with up to 90% of tax returns containing an error, particularly for 'other' deductions and interest. Deliberate cases of over-claiming are treated harshly with penalties of up to 75% of the claim.

Be aware of these common issues:

- Claiming deductions for properties that are not genuinely available for rent
- Claiming deductions for an entire property when only part of the property was available for rent
- Claiming deductions for loan interest expenses when a portion of the loan was used for private purposes
- Incorrect categorisation of expenditure incurred in order to repair or improve the property
- Not having records to substantiate income received and deductions claimed. If you are claiming a rental property expense it is important to substantiate the claim. In the event of an ATO audit, if you cannot produce a tax invoice or other evidence for an expense, it is likely the deduction will be denied.
- Incorrectly apportioned claims for interest deductions



SUPERANNUATION

SUPERANNUATION

Early access to superannuation

Individuals in financial distress as a result of the coronavirus pandemic are able to self-certify and apply for early release of up to \$10,000 of their superannuation in 2019-20, and again in 2020-21 (up until 24 September 2020).

To be eligible for early release, you should ensure you meet the eligibility criteria:

- You are unemployed, or
- You are eligible for jobseeker, parenting payment or special benefit or farm household allowance, or
- On or after 1 January 2020, you were made redundant, or
- Your working hours were reduced by 20% or more, or
- For sole traders, your income reduced by 20% or more.

The early release of superannuation measure is available to Australian citizens, permanent residents and New Zealand citizens with Australian held super. Eligible temporary visa holders can also apply for a single release of up to \$10,000 before 1 July 2020.

Can I retribute my \$10,000 withdrawal?

We've had a number of questions from clients asking if they can access \$10,000 of their superannuation in 2019-20 and 2020-21 and then retribute the amount before the end of the financial year to claim a tax deduction.

If you have withdrawn more than you need, you can retribute this amount under normal contribution rules. However, if you are withdrawing superannuation with the intent to retribute the amounts to maximise your tax deductions, we advise against this as it will attract the ATO's attention. If you have accessed your superannuation early and retribute some or all of the amount, ensure that you have the documentation in place to prove that you met the eligibility criteria for early release and were in financial distress. Harsh penalties apply to those who make false declarations.

Do you have unused concessional contributions?

If you have unused concessional contributions, that is, you did not contribute the full \$25,000 in 2018-19 or 2019-20, then you can carry forward these amounts for five years on a rolling basis if your total superannuation balance is below \$500,000 on 30 June (of the year you intend to access the unused amount).

The ability to carry forward concessional contributions applies from 1 July 2018, with

the 2019-20 financial year the first year an individual can access their unused carry forward concessional amounts.

Concessional contributions include employer contributions (super guarantee and salary sacrifice) and personal contributions that you have claimed a tax deduction for.

EXAMPLE

If your total concessional contributions in the 2019-20 financial year were \$10,000 and you meet the eligibility criteria, then you can carry forward the unused \$15,000. You may then be able to make a higher deductible personal contribution in a later financial year. If you are selling an asset and likely to make a taxable capital gain, a higher deductible personal contribution might assist in reducing your tax liability in the year of sale.

- Your total superannuation balance must be below \$500,000 on 30 June of the prior year before you utilise any carried forward amount (within the 5 year term); and
- In some cases, an additional 15% tax can apply (30% total) to concessional contributions made to super where income and concessional contributions exceeds the threshold (\$250,000 in 2019-20). Your income could be higher than usual in the year when you sell an asset for a capital gain.

This is an excellent concession to help you top up your superannuation, especially where you are out of the workforce at some stage.

Are you aged over 65?

Reforms before Parliament will give greater flexibility to make voluntary superannuation contributions for those aged 65 and over. The changes will enable you to:

- Make voluntary superannuation contributions (concessional and non-concessional) without meeting the Work Test. Currently, voluntary contributions can only be made if the individual has worked a minimum of 40 hours over a 30 day period (Work Test).
- Use the 'bring forward rule' to make up to three years of non-concessional contributions. That is, you can make non-concessional contributions of up to \$300,000 from the 2020-21 financial year.

In addition, the cut off age that you can make voluntary contributions for your spouse will increase from 70 to 75 years of age.

These reforms are not yet law and you should not act on them. We will keep you up to date on the status of this legislation.

Minimising the cost of end of year compliance

Having your paperwork organised makes life so much easier. By preparing your end of year documents and information prior to coming to see us, you'll save time and money.

Have the following items ready for when we next meet!

	Income Statement
	Interest income from banks and building societies
	Dividend statements for dividends received
	Tax statements of managed investment funds
	Rental property statements from real estate agent and details of other expenditure incurred
	For share sales or purchases, the purchase and sale contract notes
	For real estate sales or purchases, the solicitor's correspondence for the purchase and sale
	Any expenses related to your work you have not claimed from your employer
	Self-education expenses
	Travel expenses
	Donations to charities
	Payments for income protection or sickness and accident insurance
	Health insurance and rebate entitlement
	Family Tax Benefits received
	Commonwealth assistance notices
	Medical Expenses (if they relate to disability aids, attendant care or aged care services)
	IAS statements or details of PAYG Instalments paid
	Details of any transactions involving cryptocurrency (e.g. Bitcoin)
	Details of any income derived from participating in the sharing economy (e.g. Uber driving, rent from AirBNB, jobs completed through Airtasker)



About Propeller Advisory

The force behind small businesses making a big impact.

At Propeller, we speak human (we're not your typical accounting-types). We start with your vision, not numbers. We plan for your ambitions, not your BAS deadline. We empower you to shape your own future, instead of encouraging you to stick to how it's always been done.

When you join Propeller, you become part of an enterprising business community that is ambitious about innovation and growth. Think of us as your best friends, mentors and coaches (and veeeery occasionally a nagging parent). We hold you accountable, pick you up if things get rough, help you map out your next adventure, and of course, celebrate your big wins!

If you're a small or medium business serving people through education, healthcare, fashion, fitness, design, creative industries or professional services - you're in good company with Propeller!

Our services

The Standard Tax & Accounting Stuff	Small Steps, Big Growth
Offload My Bookkeeping	All Good Things Must Come to an End
Recipe for a Healthy Business	1-on-1 Mentoring
... or Choose Your Own Service Package	



Katie Bryan, Director
m. +61466 111 251
p. 03 9918 8060
e. katie@propelleradvisory.com.au

Melbourne

28 King Street, Prahran
Melbourne, VIC, 3181

p: (03) 9918 8060

Sydney

109 Quarry Street, Ultimo
Sydney, NSW, 2007

Gold Coast

Unit 1/11 Northview Street,
Mermaid Beach, QLD, 4218



CHARTERED ACCOUNTANTS™
AUSTRALIA • NEW ZEALAND



propelleradvisory.com.au